Climate-related risks and the low-carbon transition

BlackRock

Investment Stewardship

At BlackRock, investment stewardship serves as a link between our clients and the companies they invest in and is one of the ways we fulfill our fiduciary responsibilities as an asset manager on their behalf. BlackRock Investment Stewardship (BIS) is responsible for stewardship activities in relation to clients' assets invested in index equity strategies. BIS takes a long-term approach in our stewardship efforts, reflecting the investment horizons of the majority of our clients. BIS engages with the boards and management of companies in which clients are invested to deepen our understanding of a company's business model, including how they are overseeing material business risks and opportunities over time, and to help inform our voting on behalf of clients.[1] Our sole focus when conducting our stewardship program under our Benchmark Policies is to advance our clients' long-term financial interests.[2]

While companies in various sectors and geographies are affected differently by climate-related risks and opportunities, the low-carbon transition is an investment factor that can be financially material for many companies around the globe.[3] Under our Benchmark Policies, BIS' approach to financially material climate-related risks and opportunities is based on our fundamental role as a fiduciary to our clients. The money we manage is not our own — it belongs to our clients, many of whom make their own asset allocation and portfolio construction decisions.

In addition, setting, executing, and overseeing strategy are the responsibility of management and the board. As one of many minority shareholders in public companies, BlackRock does not direct a company's strategy or its implementation, nor how they should manage material business risks, including climate-related risks and opportunities. Our role, on behalf of clients as long-term investors, is to better understand how corporate leadership is managing material risks and capitalizing on opportunities to help protect and enhance the company's ability to deliver long-term financial returns; it is not our role to engineer a specific decarbonization outcome in the real economy.

Climate-related risks and opportunities as an investment issue

In BlackRock's view, the transition to a low-carbon economy is one of several mega forces reshaping markets.[4, 5] Research from the BlackRock Investment Institute (BII) highlights that changing government policy, technology, and consumer and investor preferences are driving the transition to a low-carbon economy, but sectors and markets can decarbonize at varying speeds given the dynamic and uncertain nature of technological feasibility, consumer demand, and government policies, among other factors.[6, 7]

BlackRock applies a long-term lens to assessing the future financial performance of companies impacted by climate-related physical and transition risks and opportunities under different transition scenarios.[8] For example, some companies may be impacted by the financial and operational costs of extreme weather events, while others may be assessing opportunities to harness growing demand for alternative sources of energy.[9] As an asset management fiduciary to our clients, we seek to understand whether and how companies are navigating this uncertainty and positioning for future opportunities.

Assessing companies' long-term resilience through disclosures on financially material climate-related risks and opportunities

Appropriate oversight of material risks and opportunities, including material sustainability-related risks and opportunities, is an important component of having an effective governance framework that supports durable, long-term financial value creation.[10]

We look to companies to provide robust disclosure that allows investors to effectively evaluate companies' strategy and business practices related to material sustainability-related risks and opportunities, including climate-related risks and opportunities. We find it helpful when companies' disclosures demonstrate that they have a resilient business model that integrates material sustainability-related risks and opportunities into their strategy, risk management, and metrics and targets, including industry-specific metrics.

Standardized disclosure of sustainability-related data supports investors in making informed decisions. The International Sustainability Standards Board (ISSB) standards, and specifically IFRS S2, represent one such approach to standardization that we find useful in our analysis of companies' climate-related risks and opportunities.[11] However, we do not mandate any specific disclosure framework companies should use, and recognize that some companies may report using different standards, some of which may be required by regulation. In such cases, we ask that companies highlight the metrics that are industry- or company-specific.

Many companies are assessing how to navigate the low-carbon transition while delivering long-term financial value to investors. For companies facing material climate-related risks, we find it helpful when they publicly disclose, consistent with their business model and sector, how they intend to deliver long-term financial performance through the low-carbon transition, including, where available, their transition plan.[12] From company disclosures and engagement, we seek to understand the strategies companies have in place to manage material risks to, and opportunities for, their long-term business model associated with a range of climate-related scenarios.

Recognizing the value of these disclosures, certain markets such as the European Union, mandate large companies to disclose such climate-related financial information, while in other jurisdictions these disclosures are viewed as best practice in the market.[13]

The ISSB standards provide one such framework that can assist investors in assessing company-specific climate-related risks and opportunities, and informing investment decisions. In particular, we find it useful when companies disclose the board's oversight of, and management's role in addressing climate-related risks and opportunities; and how they are allocating capital and/or evaluating investment opportunities, if any, that they have identified from the low-carbon transition. For example, some companies may invest in order to adapt existing products to meet changing consumer demands, while others may innovate to develop new low-carbon technologies.

Such disclosures also provide investors with insights into how companies are managing the risks associated with a transition to a low-carbon economy by managing their own carbon emissions or emissions intensities to the extent financially practicable.

The ISSB standards, for example, contemplate disclosures on how companies are setting short-, medium- and long-term targets, ideally science-based where these are available for their sector, for scope 1 and 2 greenhouse gas emissions (GHG) reductions and to demonstrate how their targets are consistent with the long-term financial interests of their investors. If companies set targets for scope 1 and 2 GHG reductions, BIS seeks to understand how they are setting them, what time frame they are using to assess their performance, and if the targets are science-based, where these are available for their sector.

While we recognize that regulators in some markets are moving to mandate certain disclosures, at this stage, we view scope 3 GHG emissions differently from scopes 1 and 2, given methodological complexity, regulatory uncertainty, concerns about double-counting, and lack of direct control by companies. We welcome disclosures and commitments that companies choose to make regarding material scope 3 emissions as these help us to evaluate companies' assessments of their emissions across their value chain, where appropriate; we recognize that these disclosures are provided on a good-faith basis as methodology develops.

Some companies include carbon credits in their climate-related strategies. In those cases, we find it helpful if their disclosures provide details on how credits will be used to address the company's GHG emissions, including in relation to already purchased carbon credits.[14] We look to understand the role that carbon credits play in the broader climate-related strategies of those companies, and the processes they have in place to manage their use and procurement.

To the extent that companies do not provide reporting and have material climate and low-carbon transition-related risk in their business models, we look for a fulsome explanation of how they have assessed and integrated the risks and opportunities they have identified.

Our approach to engagement with companies on the low-carbon transition

The low-carbon transition presents different challenges and potential rates of change for companies across sectors and regions. With this in mind, when discussing climate- and transition-related risks with companies, we seek to understand where the transition is most likely to materially impact a company's long-term financial performance.

BIS maintains a Climate Focus Universe which represents approximately 80-90% of the scope 1 and 2 GHG emissions of our clients' aggregate public equity holdings with BlackRock across regions.[15] The Climate Focus Universe assists BIS in prioritizing our engagement with companies for which climate risk may be material.

Companies determine the best approach for addressing the material climate-related risks and opportunities, if any, given their business models, sectors, and areas of operations. In our engagements, we seek to understand, where relevant, whether and how:

- The board and management assess and disclose material climate-related risks and opportunities relevant to the company's strategy and operations, including key assumptions, and how they may impact the company's long-term performance.
- The board and management consider shifting demand for goods and services due to changes in regulation, technology, and/or consumer preferences that may result from the low-carbon transition.
- The company measures its current emissions baseline, sets short-, medium-, and long-term emissions reduction targets (and if they are science-based, where available), and evaluates resilience to scenarios, including a range of pathways to a low-carbon economy.[16, 17]
- The company executes year-on-year, or over a series of years, against its stated emissions reduction goals and other goals related to climate risks and opportunities, and, where there are deviations from such goals, the reasons for the deviations.
- The company incorporates climate-related risk and opportunities in its capital allocation decisions, and how related investments support the long-term financial interests of shareholders.
- The company considers and, if relevant, quantifies, and accounts for material climate-related risks in its financial statements, including if the company explains such risks within the context of its audit report and/or as part of the company's strategic planning and performance outlook.

Endnotes

1. On February 11, 2025, the U.S. Securities and Exchange Commission (SEC) staff issued updated guidance for shareholders to maintain their eligibility to report their beneficial ownership under Schedule 13G of the Exchange Act. We comply fully with these requirements and do not engage with portfolio companies for the purpose, or with the effect, of changing or influencing control of any company.
2. The BIS Global Principles, regional voting guidelines, and Engagement Priorities (collectively, the BIS Benchmark Policies) set out the core elements of corporate governance that guide our investment stewardship program. The Benchmark Policies apply to clients' assets invested through index equity strategies, take a financial materiality-based approach, and are focused solely on advancing clients' long-term financial interests.
3. We recognize that companies in different markets are adapting to the low-carbon transition in varying contexts as a result of differences in the current government policy landscape. For example. the European Union (EU) and some European governments are developing incentives to support the transition to a net zero economy and drive growth. Source: BlackRock Investment Institute, "Mega forces: An investment opportunity," accessed in November 2025.
4. BlackRock Investment Institute, "Mega forces: An investment opportunity," accessed in November 2025.
5. BlackRock Investment Institute, "Evolving energy transition, evolving opportunities," February 2025.
6. BII's latest research shows that while decarbonization continues, its pace is increasingly uneven across sectors and regions, and overall slower than previously expected.
7. BlackRock Investment Institute, "Evolving energy transition, evolving opportunities," February 2025.
8. Physical risks resulting from climate change can be event driven (acute) or longer-term shifts (chronic) in climate patterns. Physical risks may have financial implications for organizations, such as direct damage to assets and indirect impacts from supply chain disruption. Transition risks are those that arise from efforts to transition to a lower-carbon economy. These include policy, legal, technological, market and reputational risks. Source: IFRS, IFRS S2 Climate-related Disclosures, 2023, accessed in November 2025.
9. BlackRock Investment Institute, "Evolving energy transition, evolving opportunities," February 2025.
10. By material sustainability-related risks and opportunities, we mean the drivers of risk and financial value creation in a company's business model that have an environmental or social dependency or impact. Examples of environmental issues include, but are not limited to, water use, land use, waste management, and climate risk. Examples of social issues include, but are not limited to, human capital management, impacts on the communities in which a company operates, customer loyalty, and relationships with regulators.
11. The ISSB is an independent standard-setting body within the International Financial Reporting Standards (IFRS) Foundation. The standards build on the Task Force on Climate-related Financial Disclosures (TCFD) framework and the standards and metrics developed by the Sustainability Accounting Standards Board (SASB), which have both converged under the ISSB. Please refer to the IFRS website to learn more about the framework and standards S1 "General Requirements for Disclosure of Sustainability-related Financial Information" and S2 "Climate-related Disclosures," accessed in December 2025.
12. We have observed that more companies are developing such plans, and public policymakers in certain markets are signaling their intentions to require them or already have requirements in place, such as Australia, Brazil, and the European Union (please see the International Transition Plan Network for information. We view transition plans as a method for a company to both internally assess and externally communicate its long-term strategy, ambition, objectives, and actions to create financial value through the global transition towards a low-carbon economy. Across the landscape there remains divergence on the objectives of such plans and the details they should contain. While transition plans can be helpful disclosure, BIS does not make the preparation and production of transition plans a voting issue. BIS may engage companies that have chosen to publish a transition plan to understand their planned actions and resource implications. Website accessed in December 2025.
13. For example, climate-related disclosure requirements are under review in the EU (the Corporate Sustainability Reporting Directive (CSRD) and Corporate Sustainability Due Diligence Directive (CSDDD)), and finalized in Singapore, Hong Kong, Canada, and Australia. Other markets, including the UK, Japan, and Canada, are consulting, have recently completed consultations, or have proposed draft legislation on their proposals to introduce disclosure requirements. Websites accessed in December 2025.
14. International Organization of Securities Commissions, "Voluntary Carbon Markets Consultation Report," November 2024.
15. Based on MSCI data as of December 1, 2025. The Universe also includes some companies which face climate-related risks and opportunities where scope 3 emissions are the largest component of their overall emissions, such as those in the financial services sector.
16. As noted previously in this commentary, while we recognize that regulators in some markets are moving to mandate certain disclosures, at this stage, we view scope 3 GHG emissions differently from scopes 1 and 2, given methodological complexity, regulatory uncertainty, concerns about double-counting, and lack of direct control by companies.
17. BIS generally considers both short- and medium-term to be a range of 0-10 years, and long-term to be a range of 10+ years. Our goal is not to set finite timelines, but to understand how companies consider emissions reduction efforts over the years as they transition toward a low-carbon economy. We encourage companies to decide how to define their own timeframes according to the life of their assets, the profile of the climate-related risks they face, and the sectors and geographies in which they operate.

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blackrock.com/stewardship | contactstewardship@blackrock.com

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