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BlackRock Publishes 2023 Investment Stewardship Global Principles

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By Jason Halper
Partner and Co-Chair | Global Litigation

By Jayshree Balakrishnan
Associate | Global Litigation

Blackrock's recently released **2023 Investment Stewardship Global Principles**, identifies several key themes to guide stakeholders and promote sound corporate governance regarding sustainability-related issues. At a high level, BlackRock's view is that "well-managed companies will effectively evaluate and manage material sustainability related risks and opportunities relevant to their businesses," which in turn requires "appropriate oversight of sustainability considerations." Relatedly, what it terms "robust disclosure" is "essential for investors to effectively evaluate companies' strategy and business practices related to material sustainability-related risks and opportunities." As a result, BlackRock encourages companies to make disclosure consistent with the **Task Force on Climate-related Financial Disclosures (TCFD) framework** and, acknowledging the lack of uniform reporting standards and data sources, it encourages companies to make use of industry-specific standards such as "those identified by the Sustainability Accounting Standards Board (SASB), now part of the International Sustainability Standards Board (ISSB) under the International Financial Reporting Standards (IFRS) Foundation."

Highlighting the connection between governance and disclosure, BlackRock points out that "the four pillars" of the disclosure-oriented TCFD, namely "governance, strategy, risk management, and metrics and targets," also provide "a useful way for companies to disclose how they identify, assess, manage, and oversee a variety of sustainability-related risks and opportunities." Emphasizing the governance point, BlackRock adds that it "encourages companies to include in their disclosure a business plan for how they intend to deliver long-term financial performance through a transition to global net zero carbon emissions, consistent with their business model and sector." Taking note of the increasing prominence of **biodiversity** concerns, BlackRock also “encourages companies to consider reporting on nature-related factors, given the growing materiality of these issues for many businesses.” BlackRock acknowledges the difficulties involved in measuring Scope 3 emissions, which it views “differently from Scopes 1 and 2, given methodological complexity, regulatory uncertainty, concerns about double-counting, and lack of direct control by companies.” As a result, it will take any Scope 3 disclosures to represent a good faith attempt to provide supply chain emission information while recognizing the significant limitations on the accuracy or thoroughness of any such reporting. On the other hand, BlackRock is “unlikely” to support disclosures that do not provide science-based short-, medium-, and long-term Scope 1 and 2 greenhouse gas emissions targets.

Taking the Temperature: Despite continued pushback from state and federal Republican lawmakers on what they describe as “wokeism,” BlackRock and other asset managers continue to encourage active governance regarding, and disclosure on, material sustainability-related risks and opportunities. The other members of the “Big 3,” Vanguard and State Street, have not yet published 2023 stewardship principles. BlackRock’s position aligns with the view that sustainability concerns present material risks and opportunities that companies need to manage from a governance perspective and, relatedly, report on to investors. Like all asset managers, BlackRock’s fiduciary duties require consideration of these and other material considerations impacting the companies in which they invest. Notwithstanding efforts on the part of certain state government officials to politicize ESG issues, the “hype” around an anti-ESG backlash ultimately may amount to no more than that. BlackRock and other asset managers no doubt will continue to have to contend with investigations and potential loss of some state government business as a result of their ESG positions (whether or not those positions are correctly characterized, and notwithstanding, for instance, their continued investments in the fossil fuel industry). But speaking from the World Economic Forum Annual Meeting in Davos on January 17, BlackRock’s CEO Laurence Fink said that the firm actually took in $230 billion in 2022 from clients, while losing approximately $4 billion AUM as a result of state government reaction to ESG issues. Those results could be read as evidence that the market agrees with BlackRock and others on the need to responsibly consider climate risks when making investment decisions.