BlackRock Investment Stewardship

Climate and Decarbonization Stewardship Guidelines

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BlackRock®

BlackRock climate and decarbonization stewardship guidelines[1]

Introduction to BlackRock Investment Stewardship

BlackRock's clients depend on us to help them meet their varied investment goals. We consider it one of our responsibilities to be an informed, engaged shareholder on their behalf, given the business decisions that companies make have a direct impact on our clients' long-term investment outcomes and financial well-being. BlackRock Investment Stewardship (BIS) is a dedicated function within BlackRock, which serves as a link between BlackRock's clients and the companies we invest in on their behalf. BIS takes a long-term approach in our stewardship efforts, reflecting the investment horizons of the majority of our clients. BIS does this through:

1. **Engaging with companies** in a two-way dialogue to build our understanding of a company's practices and inform our voting decisions.

2. **Voting at shareholder meetings** on management and shareholder proposals on behalf of clients who have delegated voting authority to BlackRock.

3. **Contributing to industry dialogue on stewardship** to share our perspectives on matters that may impact our clients' investments.

4. **Reporting on our activities** to inform clients about our stewardship efforts on their behalf through a range of publications and direct reporting.

Stewardship for clients with investment objectives relating to the low-carbon transition[2]

BlackRock offers a wide range of investment products and funds to support our clients' unique and varied investment objectives, and in February 2024, BlackRock announced it would be launching a new decarbonization stewardship option for those clients who explicitly direct BlackRock to invest their assets with decarbonization investment objectives. An increasing number of clients are seeking to minimize the financial risk, and maximize the financial opportunities, associated with the transition to a low-carbon economy, and thus are interested in sustainable and transition investing, with some including decarbonization as an investment objective in their mandates with BlackRock. In Europe for example, all of our largest, strategic relationship clients have net zero commitments for their organizations, and globally a growing number have made similar commitments, which those clients believe, will shape financial opportunities in the transition to a low-carbon economy. A survey of 200 institutional investors globally, representing nearly $9tn in assets under management, indicated that 98% of them have set some kind of transition investment objective for their portfolios.[3]

These guidelines set out BIS' approach to voting at companies' shareholder meetings on behalf of funds with explicit decarbonization or climate-related investment objectives,[4] and, when appropriate, engagement with corporate leadership to support our voting on clients' behalf. In addition, clients in separately managed accounts may instruct BlackRock to apply these guidelines to their holdings. Both in the case of funds and separately managed accounts, these guidelines are only implemented upon explicit selection and approval by the applicable fund board or client.

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[1] We have heard from a growing number of clients globally that they have made, or are planning to make, commitments to align their investment strategies with the transition to a low-carbon economy. This stewardship option helps those clients meet their climate and decarbonization investment objectives and is part of BlackRock's commitment to offer clients choice.
[2] Key climate, decarbonization and low-carbon transition related terms used in these guidelines are explained in appendix 1.
[3] To help inform the choices BlackRock offers our clients, in June 2023 we commissioned iResearch Services, an independent third-party research consultancy, to conduct a market survey on our behalf. The survey sought to better understand institutions' needs and preferences related to investing in the low-carbon transition.
[4] A list of approved funds is on BlackRock's website here.

These guidelines should be read in conjunction with BIS' benchmark policies[5] and are focused on matters related to climate risks and the transition to a low-carbon economy at companies that are held by funds and clients who have selected these guidelines. These guidelines differ from the benchmark policies in that they consider, in addition to financial considerations and consistent with the investment objective of each fund or account that has selected these guidelines, the alignment of companies' business model and strategies with the financial opportunities presented by the transition to a low-carbon economy and the more ambitious goal of the Paris Agreement,[6] namely to limit average temperature rise to 1.5°C above pre-industrial levels.

These guidelines will apply to companies which produce goods and services that contribute to real world decarbonization or have a carbon intensive business model and face outsized impacts from the low-carbon transition, based on reported and estimated scopes 1, 2, and 3 greenhouse gas emissions.[7] We estimate these companies represent the vast majority of the value chain emissions of the companies held by funds and clients that have selected these guidelines. For all other companies held by these funds and clients, BIS' benchmark voting guidelines apply.

On other matters not related to climate risks and the transition to a low-carbon economy, BIS will apply our benchmark policies.

For clients who have not directed BlackRock to prioritize climate risks and decarbonization as an investment objective, BIS will continue to undertake our stewardship responsibilities in line with our benchmark policies, with a sole focus on advancing those clients' long-term economic interests. This will include consideration of climate-related risks and opportunities in a company's business model, where material to the company's ability to deliver long-term financial returns.

Please see appendix 2, which sets out the key differences between the BIS benchmark and decarbonization policies on items related to climate risk and the transition to a low-carbon economy.

Understanding the investment implications of the transition to a low-carbon economy

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 these forces are moving at uneven speeds across sectors and regions. For example—some technologies like renewable power are already being deployed at scale in some regions, while in other sectors and regions less cost-effective low-carbon alternatives exist. We have heard from certain clients that they see the low-carbon transition as a series of shifts over decades that will reshape production and consumption, spur significant capital investment and create risks, opportunities and a wider range of financial and competitive outcomes for companies.

For clients interested in investing in the transition to a low-carbon economy and understanding its corresponding risks and opportunities, we have developed the BlackRock Investment Institute Transition Scenario (BIITS), powered by Aladdin® technology. BIITS is a research-based, analytical forecast of how the low-carbon transition is most likely to play out based on what we know and expect today. It can help inform a top-down assessment of a company's business risk arising from the transition. BII based its key assumptions on rigorous research, and the input of BlackRock's portfolio managers and other experts.

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[5] BIS' benchmark policies set out the core elements of corporate governance that guide our investment stewardship efforts globally and within each market, including when engaging with companies and voting at shareholder meetings. They are anchored in our Global Principles, which set out certain globally applicable fundamental elements of governance that contribute to a company's ability to create long-term financial value, anchored in transparency and accountability. They also include our regional and market-specific voting guidelines, which explain how the Principles inform our voting decisions in relation to common ballot items for shareholder meetings in those markets. We publish our engagement priorities which reflect the five themes on which we most frequently engage companies, where they are relevant, as these can be a source of material business risk or opportunity. The BIS policies are applied on a case-by-case basis, taking into consideration the context within which a company is operating. They are reviewed annually and updated as necessary to reflect market developments and feedback from clients and companies.

[6] The Paris Agreement to the United Nations Framework Convention on Climate Change, December 12, 2015.

[7] These companies may already be low-carbon operators, or be demonstrating momentum in reducing emissions in their operations, providing key inputs or goods and services that support real world decarbonization, or pivoting their current business model to contribute to the transition to the low-carbon economy.

For client assets with explicit investment objectives related to the transition to a low-carbon economy, BIS will draw on the insights generated by BIITS and Aladdin® Climate,[8] as well as our own analysis and engagement, in applying these guidelines. In doing so, we will take into consideration the fact that the necessary data to assess individual companies currently has limitations, but is improving as a result of disclosure requirements in an increasing number of jurisdictions.

Decarbonization stewardship guidelines design principles

The framework of these guidelines is designed to:

- **Prioritize sectors and companies that are critical to the transition to a low-carbon economy:** This includes companies which produce goods and services that contribute to real world decarbonization or have a carbon intensive business model and face outsized impacts from the low-carbon transition.

- **Apply a sectoral approach to our analysis that acknowledges the unevenness of the low-carbon transition across sectors and markets**: We take into consideration the varying speeds at which sectors and markets can decarbonize based on technological feasibility, consumer demand, government policy, regulatory frameworks and other factors. Further, we recognize that these factors are uncertain and dynamic, which will require that we evolve our approach as necessary.

- **Take a long-term, pragmatic approach that favors a transition that minimizes disruption to companies and their key stakeholders:** Our approach recognizes the challenges that many companies face in adapting their business models. It is premised on the views of interested clients that a transition where companies adapt and continue to deliver financial returns throughout, is a better long-term investment outcome for them, and less disruptive to a company's other key stakeholders, than a transition that is uneven. Further, we consider the differences between the actions and outcomes over which company management has influence, and those it does not.

- **Focus on useful, contextualized disclosures that help inform investors views, while recognizing data limitations:** The policy will seek disclosures that outline key milestones and dependencies underpinning the company's low-carbon transition strategy; explain the trade-offs required to adapt the business model; and include relevant data and narrative.

- **Be consistent with our position as a minority investor on behalf of our clients:** The boards and executive leadership of companies determine a company's strategy and its implementation. We make decisions on how to engage companies and vote proxies independently, based on our professional judgment of the priorities and outcomes most aligned with clients' investment objectives.

Voting guidelines[9]

Consistent with the investment objective of each fund or client that has selected these guidelines, BIS will look to companies to demonstrate the following:

Corporate Disclosures[10]

In the context of these guidelines, we look for companies to provide sufficient corporate disclosure to allow us to determine the extent to which decarbonization and the low-carbon transition are strategic priorities. As a general point, we would expect companies that have disclosed their aim to participate in the transition to a low-carbon

[8] Aladdin® Climate is a suite of climate analytics including forward-looking scenario analysis and net zero alignment analytics. Aladdin® is a proprietary investment and risk management platform.
[9] These guidelines are not intended to limit the analysis of individual issues at specific companies or provide a guide as to how BIS will engage and/or vote in every instance. The guidelines are applied by BIS analysts with discretion, on a case-by-case basis, taking into consideration the range of issues and facts specific to the company, as well as individual ballot items at shareholder meetings..
[10] Given data and measurement limitations, companies may need to provide estimated GHG emissions where reporting methodologies are nascent. In addition, certain disclosures related to a company's plans for adapting their business models through the low-carbon transition may require forward-looking statements.

economy to make disclosures that help explain the strategy and governance systems they have determined most appropriate, which may include:

(1) a low-carbon transition strategy to demonstrate their alignment with the ambition to limit global average temperature rise to 1.5°C above pre-industrial levels. This would normally mean that they have a long-term strategy to achieve net-zero greenhouse gas (GHG) emissions by 2050, with appropriate near- and medium-term milestones to assess their progress.

(2) low-carbon transition-related reporting consistent with the standards developed by the International Sustainability Standards Board (ISSB).[11] IFRS S1 addresses the general requirements of sustainability reporting and IFRS S2 sets out the disclosures that would provide investors with decision-useful information about a company's most significant climate- and low-carbon transition-related risks and opportunities. As audit and assurance standards are developed, it would be helpful to investors' confidence in such disclosures for companies to seek independent, third-party assurance.

(3) scope 1 and scope 2, and material scope 3 GHG emissions. [12] [13] In addition, we look to companies to disclose their reduction targets for scope 1 and 2 emissions, science-based where possible. We welcome disclosure of targets or indicative goals, where companies have set them, for scope 3 emissions reductions, recognizing that these would be provided on a 'best efforts' basis given the methodological challenges these currently present for reporters. Scope 3 information, including how a company is working with its value chain to accelerate reductions in GHG intensity, provides useful insight to investors focused on investing in the low-carbon transition and understanding the impact of their investments on their decarbonization goals.[14] However, we recognize that companies have varying ability to influence the emissions across the different parts of their value chain and it is helpful when disclosures explain the implications for the achievement of their decarbonization targets.

Transition plans

Some companies have published a transition plan that explains how the company intends to implement its low-carbon transition strategy by, as defined by the ISSB, "lay[ing] out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions" (see appendix 1).

We note the work being undertaken in a number of jurisdictions on establishing a common approach in a market to corporate transition plans. Given this work continues, for the near-term, BIS will not make 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 in accordance with anticipated requirements.

[11] The International Sustainability Standards Board (ISSB) was formed by the International Financial Reporting Standards (IFRS) Foundation in 2021. It aims to develop global standards for sustainability reporting for corporates and investors to support more efficient capital markets. The goal is standards that will provide a high-quality, comprehensive, and cost-effective global baseline of sustainability disclosures, while enabling interoperability with jurisdiction-specific disclosure, and broader stakeholder, requirements. IFRS S1 and S2 were based on the recommendations of the Task Force on Climate-related Financial Disclosures, which many companies have used in their reporting to date. A number of jurisdictions are consulting on adopting the standards issued to date or have already committed to doing so.

[12] FTSE Russell address the materiality of different categories of Scope 3 GHG emissions by sector in a January 2024 paper "Scope for improvement: Solving the Scope 3 conundrum".

[13] Under this policy, we look for GHG emissions disclosures to be aligned with the Greenhouse Gas Protocol ("GHG Protocol"). The Protocol Standards and Guidance are currently being updated to ensure they continue to provide "a rigorous and credible accounting foundation for businesses to measure, plan and track progress toward science-based and net-zero targets in line with the global 1.5°C goal."

[14] 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, we find it most useful when companies focus their disclosures on those of the fifteen Scope 3 GHG Protocol categories that are material to their business models.

Boards and directors

An effective and well-functioning board that has appropriate governance structures to facilitate oversight of a company's management and strategic initiatives is critical to the company's ability to deliver on its low-carbon transition strategy.

In assessing the role and effectiveness of the board in this regard, we seek to understand whether:

- The board has clear oversight responsibilities for climate and low-carbon transition-related risks and opportunities in the company's business model. We consider the whole board to have responsibility for oversight of the company's long-term strategy, including those aspects related to the transition to a low-carbon economy.

- Management has established a robust low-carbon transition framework and long-term strategy, with clear accountability for delivery by senior executives.

- The capital management strategy explains how the company allocates investments to (traditional and next generation) business lines and innovation, and returns cash to shareholders, consistent with the low-carbon transition strategy.

- The climate and low-carbon transition risks most likely to significantly impact the business are integrated into the company's enterprise risk management processes and reporting.

- The company has set scope 1 & 2 GHG emissions reduction targets, science-based and independently verified where possible, against a baseline, that are consistent with the ambition to limit average temperature rise to no more than 1.5°C above pre-industrial levels.

- There is a clear link between the company's scope 1 & 2 GHG emissions reduction targets over time and its long-term low-carbon transition strategy.

- The company is monitoring its material scope 3 emissions[15] and disclosing these where it is confident in the data. Given forthcoming regulatory requirements in certain jurisdictions, some companies are voluntarily disclosing scope 3 emissions reductions targets and plans, setting out how they are working on decarbonization with the different constituents in their value chain.

- The board oversees, and management has a formalized approach to, the company's lobbying activities, including trade association memberships. Policy engagement should be consistent with a company's stated strategic policy objectives, including those related to the low-carbon transition.

Voting against directors over concerns about climate risk

In implementing these guidelines, BIS will generally support non-executive directors standing for election where, in BIS' assessment based on company disclosures and engagement, a company is executing on its commitment to align with the transition to a low-carbon economy, as defined above. Where BIS determines this is not the case, we may vote against the election of one or more directors who have responsibility for the issue. The directors most likely to be in focus are the chair of the board sub-committee with low-carbon transition, climate or sustainability risk oversight responsibilities, other members of the relevant committee, the lead independent director or the non-executive chair of the board. In certain markets, we may withhold support for the discharge of the supervisory board or equivalent.

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[15] As discussed in the FTSE Russell publication mentioned above, their research indicates that there are 2-3 material scope 3 GHG emissions categories by sector. The research uses a definition of materiality from the GHG Protocol, which "encourages companies to maintain a representative inventory of the "most significant GHG emissions, [that] offer the most significant GHG reduction opportunities and are most relevant to the company's business goals."

Where we have not supported director elections over climate concerns in a prior year, and the company has not subsequently made progress towards aligning with the transition to a low-carbon economy, we may escalate[16] by voting against the re-election of additional responsible directors to signal our heightened concerns.

Management proposals to approve a climate strategy or progress report

In certain markets, company management may submit proposals asking shareholders to approve their climate action plans or progress reports, sometimes known as "Say on Climate." BIS will generally support management's climate strategy proposal if, in our assessment based on these guidelines, the strategy is aligned with the low-carbon transition. Similarly, we will generally support management's proposal on a progress report if the company has clearly explained its progress against, and any deviations from or changes to, its stated transition plan and targets.

Shareholder proposals on climate and low-carbon transition matters

Shareholder proposals on a company's approach to the low-carbon transition or climate risk will be considered on their merit. Our assessment will take into consideration the implications for, and the relevance to, the company's stated low-carbon transition strategy and targets. We may support shareholder proposals that, for example, ask a company to:

- Publish a business plan, and related disclosures, consistent with the ambition to limit average temperature rise to no more than 1.5°C above pre-industrial levels
- Align their scope 1 and 2 GHG emissions reduction targets to, and/or discuss how their targets align with, a long-term goal of the company achieving net zero GHG emissions by 2050
- Disclose the categories of scope 3 GHG emissions most material to a company's business model
- Improve disclosures on how a company's climate-related lobbying (including trade association memberships and other indirect lobbying) is aligned with its strategic policy positions.

We would not support shareholder proposals that seek to constrain board or management decision-making or direct specific business or strategic decisions. This includes proposals that seek to change a company's articles of association or charter to require commitments or actions related to climate risk or the low-carbon transition.

Related matters

There are other business items not covered above that may be put to a shareholder vote that could address matters relevant to the transition to a low-carbon economy. Under these guidelines, BIS is most likely to engage, where appropriate, if we seek to enhance our understanding of a company's approach. Generally, our voting on these matters would be covered by BIS' benchmark guidelines.

Executive compensation

We look to company boards to put in place a compensation structure that incentivizes and rewards executives appropriately. Some companies, in light of their long-term strategy, may decide to include relevant GHG emissions reduction targets or low-carbon transition-related metrics in their incentive plans. In such cases, BIS would engage to understand the alignment between those metrics and the company's stated climate strategy.

[16] While BIS may escalate voting by not supporting additional management proposals, principally director elections, we do not consider filing shareholder proposals, preannouncing our voting intentions or using the media to amplify our concerns appropriate courses of action. We will continue to take a constructive, long-term focused approach, to our engagement and voting on behalf of clients under these guidelines.

Auditors and audit-related issues

For companies with material climate or transition risks or opportunities in their business models, BIS is interested to understand whether 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. We note that work is being undertaken to develop audit and assurance standards in relation to climate and transition reporting, which may impact the future reporting requirements of companies. We note that assurance of corporate disclosures related to climate risk and the transition to a low-carbon economy is still nascent.

Mergers, acquisitions, asset sales, and other special situations

Special situations will be considered on their financial merits, but BIS may engage on climate-related factors under these guidelines where a transaction may significantly alter a company's climate strategy or a shareholder activist has proposed governance, strategic or operational changes that may impact its climate strategy. BIS does not promote changes in corporate control, nor does it invoke formal governance mechanisms that rise to the level of shareholder activism.

Other business relevant sustainability-related risks and opportunities

Climate risk and the transition to a low-carbon economy are interconnected with a number of other sustainability-related risks and opportunities that may be relevant to a company's business model and long-term performance. These include a company's impacts or dependencies on natural capital and key stakeholders.[17] In the context of these guidelines, we may engage companies to better understand how they are managing the impact on people (e.g., employees, suppliers, customers and communities) of any strategic or operational changes they are making in relation to their transition to a low-carbon economy. Similarly, we may engage companies that face risks and opportunities related to land use and deforestation, access to fresh water, or the ability to secure scarce resources critical to the transition to a low-carbon economy.

[17] BIS' engagement with companies on these issues is informed by our commentaries on natural capital, human capital management and human rights.

Appendix 1

Terminology

We understand the key concepts referred to within these guidelines as follows:

Climate risk: Includes physical risk, the increased risk to companies' assets and activities caused by the direct impact of changing weather patterns and natural catastrophes, and transition risk, the impact of the transition to a low-carbon economy on a company's long-term profitability.

Transition to a low-carbon economy ("low-carbon transition"): The global economic shift toward lower emissions across many sectors and business models. The economic transformation is being driven by changes in government policy, technology, and consumer and investor preferences, as well as the physical effects of climate change (e.g., extreme weather), and can potentially have a material impact on clients' investments and portfolios.

Decarbonization: the process of reducing or eliminating emissions of carbon dioxide (CO2) from human activity and removing carbon currently in the atmosphere. This can be carried out by countries, companies and even individual consumers. Sometimes the concept is understood to include the reduction and elimination of other GHG, e.g., methane.

Climate-related risks and opportunities: The investment opportunities and risks associated with the transition to a low-carbon economy, including transition risks and opportunities and physical risks and opportunities in adapting to physical climate change.

Climate-related transition plan: "An aspect of an entity's overall strategy that lays out the entity's targets, actions or resources for its transition towards a lower-carbon economy, including actions such as reducing its greenhouse gas emissions."[18]

Science-based GHG emissions reduction targets: Targets that "…are in line with what the latest climate science deems necessary to meet the goals of the Paris Agreement – limiting global warming to 1.5°C above pre-industrial levels. Science-based targets give companies a clearly defined path to reduce greenhouse gas emissions in line with limiting global warming to 1.5°C. They define how much and how quickly a business must reduce its emissions to be in line with the Paris Agreement goals."[19]

[18] As defined by the International Sustainability Standards Board's IFRS S2 Climate-related Disclosures. Several jurisdictions are basing their own transition plan disclosure frameworks on the IFRS S2 definition. We anticipate transition plan disclosure becoming mandatory in an increasing number of jurisdictions over the near term.

[19] As defined by the Science Based Targets initiative (SBTi). SBTi "is a corporate climate action organization that enables companies and financial institutions worldwide to play their part in combating the climate crisis. We develop standards, tools and guidance which allow companies to set greenhouse gas (GHG) emissions reductions targets in line with what is needed to keep global heating below catastrophic levels and reach net-zero by 2050 at latest."

Appendix 2

Comparison of key differences between how the BIS benchmark considers climate-related risks, where appropriate, and the decarbonization guidelines[20]

	BIS Benchmark Policy	Decarbonization Policy
Key concepts	Focuses on financial performance and engages companies on climate and transition topics when material to their business Prioritizes the disclosure of how a company is managing material climate and transition-related risks and opportunities	Considers both financial performance and decarbonization objectives consistent with funds' and clients' investment objectives Assesses the alignment of a company's business model with the ambition to limit global average temperature rise to 1.5°C above pre-industrial levels
Prioritized companies for climate-related engagement	Largest Scope 1 and 2 GHG emitters	Largest total value chain GHG emitters (Scope 1, 2, & 3)
Emissions reporting	Seeks reporting of Scope 1 & 2	Seeks reporting of Scope 1, 2 and material 3
Emissions targets & decarbonization efforts	Seeks the disclosure of Scope 1 & 2 targets	Seeks Scope 1 & 2 targets and assesses decarbonization efforts
Temperature & scenario alignment / pathways	Seeks disclosure from companies that identifies and discusses the most plausible decarbonization pathway	Assesses temperature and scenario alignment/ pathways to 1.5°C degrees
Science-based targets commitments & verifications	Engagement topic but not vote escalation criteria	Seeks science-based targets and verifications where possible; may take voting action where absent
Company's role in the transition	Engagement topic but not vote escalation criteria	Assesses activities benefitting from and/ or contributing to the transition to a low-carbon economy
Shareholder proposals	Case-by-case approach with focus on implications for long-term financial value creation No support for shareholder proposals that seek to direct management strategy	Case-by-case approach with further consideration given to decarbonization objectives in addition to financial performance No support for shareholder proposals that seek to direct management strategy

[20] There may be some regional variations in voting under the decarbonization policy in light of company circumstances, policy requirements in a particular market or a country's Nationally Defined Contributions, amongst other things.

Want to know more?

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