# Analysis and Engagement Recommendations: BlackRock's Decarbonization Stewardship Guidelines

This memo is an analysis of BlackRock's first decarbonization stewardship policy. It outlines the issues on which the policy is taking a strong approach on climate risk management, highlights key metrics on which the policy falls short, and summarizes where the policy can be improved. The memo also includes an annex which goes point-by-point comparing BlackRock's decarbonization policy against a socially responsible investment (SRI) voting guideline published by ISS.

Clients (or other stakeholders) who are interested in engaging with BlackRock about this policy, either to consider whether to sign up or to encourage the asset manager to improve its policy, can use the "Recommendations for client engagement" and the annex as resources.

**Background**

In early July, BlackRock released its first Climate and Decarbonization Stewardship Guidelines. The document outlines principles to guide voting and engagement at a list of unidentified companies that are the largest total value chain emitters, and is intended to serve as a specialty stewardship policy option for clients "who explicitly direct BlackRock to invest their assets with decarbonization investment objectives." The guidelines focus on proxy voting and note that BlackRock will engage "when appropriate" to support voting.

We believe that this policy will be a BlackRock-owned climate-focused policy option available within the Voter Choice platform.

This policy differs from BlackRock's benchmark policy on key climate issues by taking into account the alignment of companies' business model and strategies with "transition to a low carbon economy and the more ambitious goal of the Paris Agreement."

As BlackRock (and other large asset managers) leans more into a client-directed approach for its stewardship activities, this policy offers a voting and *engagement* option to responsible investors that are eager to incorporate responsible climate risk management into their strategy. We believe this policy was launched in response to asset owners and shareholders that have expressed concerns with BlackRock's current, limited approach to, and backtracking on, climate risk management.

**Where the policy advances BlackRock's benchmark approach**

The decarbonization policy does move forward BlackRock's strategy on climate in a few significant ways:

- More comprehensive list of priority companies: the policy looks at the largest total value chain emitters in determining the universe of target companies. This is an expansion from the benchmark, which only looks at Scope 1 and 2 emissions to understand a company's exposure or contribution to climate risk.
- Assesses alignment with 1.5C: for this policy, BlackRock will assess a company's alignment with 1.5C pathways, rather than just seeking greater climate disclosures (though BlackRock does not clearly articular what constitutes assessment). Presumably, engagement with companies will encourage greater alignment with Paris-aligned pathways.
- Seeks reporting of Scope 3 emissions: this policy will support measures to improve disclosures of the "most material" Scope 3 greenhouse gas emissions; in its benchmark policy, BlackRock only makes disclosure of Scopes 1 and 2 emissions a voting matter.
- Escalating accountability of directors: the policy includes measures to escalate votes against directors if a company continues to be misaligned with a 1.5C transition. Having escalation frameworks for engagement and proxy voting is highlighted as best practice by groups including the UN Principles for Responsible Investment (PRI) and the Net Zero Asset Owner Alliance (NZAOA).
- Other sustainability-related issues: the policy recognizes that a company may have impacts or dependencies on natural capital and key stakeholders. It notes that it "may engage" companies on issues related to critical resources, deforestation, community impacts, and related issues.

It should be noted, however, that while BlackRock brands these as "decarbonization" strategies, we – and scores of responsible investors – firmly see these as responsible strategies for risk management for growing idiosyncratic and systemic climate-related risks. These approaches should be part and parcel of BlackRock's benchmark policy, not relegated to an opt-in strategy for certain clients.

**Where the policy falls short**

While the effort to offer clients a more responsible stewardship approach to managing climate-related risks is admirable, BlackRock's first iteration of a decarbonization policy unfortunately falls short in a few key areas:

- Overly focused on climate disclosures, not implementation: this policy maintains BlackRock's standard approach to stewardship, focusing on governance-based processes and disclosures, moreso that the implementation of decarbonization strategies. A policy that purports to help clients with explicit decarbonization goals should emphasize engagement and proxy voting elements that actively promote adoption and implementation of decarbonization strategies.[1] It is notable that other policies offered in

[1] "Corporate climate disclosures are critical for investors to have decision-useful information, but, as the UN Principles for Responsible Investment notes, corporate disclosures are not sufficient to deliver outcomes, especially on systemic issues, such as climate change. In fact, several studies have found zero to negative correlation between a company's disclosure and its actual environmental performance and that disclosure does not necessarily lead to changes beyond disclosure itself. Furthermore, improved disclosure does little to shield passive investors from risk as

the Voter Choice platform (e.g. ISS SRI policy) have historically recommended support for shareholder resolutions that call on companies to adopt policies that would lead to emissions reductions.

- Excludes key decarbonization metrics from voting policy: two notable examples of where the policy falls short is in its approach to voting on matters related to Scope 3 emissions and transition plans. There are several key climate-related metrics (including those highlighted in the Climate Action 100+ benchmark) on which the policy either does not take a strong stance or does not enumerate its position on the matter. The policy "welcome[s]" Scope 3 disclosures and targets and will support resolutions to disclose only the "most material" Scope 3 emission, but will not vote on matters related to setting Scope 3 targets or working along the value chain to reduce emissions. Regarding transition plans, the policy does not make developing and disclosing transition plans a voting issue, citing the lack of a standardized approach. However, the climate transition plan disclosure is now required under several reporting standards, including the EU's Corporate Sustainability Reporting Standards, ISSB, and others. Failing to set expectations for transition plan disclosure falls behind emerging best practices on climate risk management.
- Limited detail provided on approach to other key climate metrics: the policy lacks detail on BlackRock's plans for engaging on issues including capital expenditures, just transition metrics, natural capital, and biodiversity loss. In a few instances the policy mentions that BlackRock "*may* engage" on these issues [emphasis added], but engaging to better understand exposure is not the same as encouraging companies to develop and adopt strategies to mitigate their impacts on and exposure to such issues and related risks.
- Minimal engagement escalation: best practice for corporate engagement encompasses escalation pathways, which consist of time-bound strategies for achieving desired outcomes at portfolio companies. The policy's escalation framework is insufficient: the decarbonization policy has an escalation strategy for director accountability, but lacks escalation for non-director voting.
- Minimal focus systemic risk mitigation: The financial risks posed by climate change are systemic, portfolio-wide, and un-diversifiable. Therefore, mitigating climate-related risks for investors comprehensively requires evaluating, engaging, and voting in ways that protect the value of portfolios overall, more than maximizing the returns of every single company (e.g. in the low-carbon transition, some companies or sectors may need to shrink or accept lower margins for the sake of overall financial stability and long-term market performance). However, BlackRock's policy focuses on minimizing disruption to individual companies to ensure they can "deliver financial returns throughout," rather than focusing on prioritizing decarbonization and risk mitigation, which clients for this policy need.

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most buy securities based on index fund tracking, rather than risk characteristics. (For context, as of 2022, BlackRock had 90% of its equity portfolio in index-tracking passive funds.) In other words, improving disclosure, while both necessary and important, is not sufficient to shield long-term, diversified, and largely passive investors from climate-related risks."

**Recommendations for client engagement to strengthen BlackRock's decarbonization policy**

- Policy should encourage corporate action on decarbonization and other risk mitigation:
    - Expand engagement and proxy voting expectations to include measures that encourage the adoption and implementation of decarbonization strategies, in line with other responsible and climate-oriented voting policies (e.g. ISS' climate, SRI, and sustainability policies).
    - Adopt and outline engagement and voting guidelines on just transition, environmental justice, and Indigenous rights in line with guidance outlined by Climate Action 100+, Grantham Institute, Impact Investing Institute, and others. This should include supporting measures to mitigate the negative impacts to communities of color, Indigenous communities, low-income or otherwise disadvantaged communities, including recognition of customary land rights to give or withhold Free, Prior, and Informed Consent (FPIC).
    - Adopt engagement and voting guidelines on natural capital and biodiversity that actively encourage companies to adopt and implement strategies that mitigate negative impacts on biodiversity, forests, and other nature-related issues.
    - Incorporate engagement and voting metrics for a just transition that include a framework that uses engagement and proxy voting as tools to manage and mitigate systemic risks.
    - Evaluate the merit of proxy proposals and director reelections by evaluating both idiosyncratic risks to the company and systemic risks posed by the company's operations and financing activities.
    - Align such expectations with scientific recommendations needed to: limit warming to 1.5°C no/low overshoot scenarios; to preserve at least 30% of terrestrial and marine habitat by 2030; and to uphold the Global Biodiversity Framework.
- Incorporate best practices for climate disclosures and supply chain management:
    - The policy should encompass explicit expectations (that feed into voting guidelines) that companies in the focus universe should disclose Scope 3 emissions, develop and disclose transition plans, and do what's possible in working along the value change to reduce emissions.
- Develop clear escalation pathways for accountability beyond director votes to encompass escalation pathways on shareholder resolutions, topics covered in corporate engagement (e.g. building in expectations for the development of transition plans), public policy engagements, etc.

**Annex: Comparison of BlackRock's Voting Choice policies against [expectations of an effective decarbonization policy]**

Prior to the launch of the policy, a group of asset owners and other socially responsible investors enumerated what would constitute a strong decarbonization-focused stewardship policy. The following is an analysis of the BlackRock policy against the outlined expectations, and provides a side-by-side comparison to another policy offered through the Voter Choice platform that has a good history on climate.

| | Expectation | BlackRock decarbonization policy | ISS SRI policy (2024)[2] |
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| Disclosures | Encourages companies to disclose progress toward their decarbonization goals | Looks for adequate information to determine whether decarbonization is a strategic priority. Look for: ISSB aligned reporting; low-carbon transition strategy; Scope 1, 2, and material Scope 3 emissions.<br><br>The voting guidelines related to disclosure outline potential support for: a 1.5C-aligned business plan; disclosing categories of most material Scope 3 emissions; improvements to disclosures on climate-related lobbying | Will support shareholder proposals requesting reports on greenhouse gas emissions from companies' operations and/or products |
| | Promotes high-quality disclosure practices at companies that have greater material climate and/or transition risks | See above<br><br>Larger universe of companies targeted for engagement. Focuses on "largest total value chain GHG emitters (Scope 1,2,3)" including 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" | The policy takes voting action against board members at companies on the Climate Action 100+ list.<br><br>There is no identified universe of companies at which the policy will support relevant climate-related resolutions, suggesting this will be a universal application (at least in the United States). |

[2] United States guideline

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| Disclosures | Encourages companies to consider their impacts and dependencies on biodiversity and natural capital | May encourage companies to better understand impacts on key stakeholders, including communities.<br><br>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<br><br>But does not provide details on engagement priorities, voting policies, or expectations for portfolio companies around these issues | The policy has voting guidelines outlined for additional environmental-related issues, including operations in environmentally sensitive areas, the Equator Principles, recycling policies, and others.<br><br>The policy lacks specific guidelines on mitigating impacts to biodiversity and natural capital. |
| | Promotes decarbonization of capital expenditures at companies | Examines capital management strategy for alignment with the low-carbon transition strategy in relation to assessing board efficacy | The only mention of climate-related capital expenditures is in assessment of management Say on Climate proposals. |
| | Promotes development and disclosure of transition plans | Policy does not make preparation and production of a transition plan a voting issue, citing the lack of a standardized approach<br><br>Looks to see if there is transition-related reporting consistent with ISSB | No explicit policy for transition plan disclosure, but would likely be supported under the guidance of approval for proposals that ask for increased disclosure on a company's operations, investments, and process for measuring and managing climate-related risks.<br><br>Vote case-by-case on shareholder Say on Climate proposals that ask for shareholder approval of a transition plan. |
| | Promotes board accountability and board | May vote against responsible director(s) if company is not aligning with 1.5C | Will vote against or withhold votes from the incumbent chair of the responsible |

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| Governance | composition with relevant expertise on and commitment to decarbonization, including promoting management accountability | transition, and may escalate the number of votes year-over-year if inadequate action is taken<br><br>Nothing on climate-related board composition, relevant expertise, or the need for board members to be on-board with a vision for transition | committee if the company is not determined to be taking the minimum steps necessary to align with a Net Zero by 2050 trajectory. These metrics include Scope 1, 2, relevant Scope 3 targets for 2050, medium-term targets, and TCFD-aligned disclosures.<br><br>The policy indicates that expectations fpr what constitutes "minimum steps" will increase over time, but it does not indicate what future expectations will be. |
| Expectations for engagements | Includes Just Transition considerations; Includes environmental justice and equity criteria that are relevant to decarbonization | Policy mentions potential company engagement on impact to people, including communities, but only as they relate to "strategic or operational changes they are making in relation to their transition to a low-carbon economy"<br><br>Does not detail company expectations on these issues, nor are Just Transition criteria incorporated into voting guidelines | No mention of just transition in the policy |
| | Utilizes engagement which focuses on transition planning and implementation as well as real-world decarbonization | As highlighted, the policy falls short in many areas for comprehensive climate-related risk. While the principles that back engagements appear more expansive than the voting policies, without a more detailed engagement, it is guide unclear extent to which BlackRock is *actively encouraging* adoption and implementation of decarbonization strategies in engagements | N/A - only a voting policy |
| | Promotes explicit short-, mid-, | On a case-by-case basis, will support | Will support shareholder proposals calling |

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| Target Setting | and long-term science-based climate targets aligned with 1.5°C pathways by 2026, including effective implementation of policy | shareholder resolutions to align Scope 1 and 2 GHG emissions with long-term climate goals.<br><br>Reduction targets for Scope 1 and 2 are expected to be science-based "where possible," and may take voting action where absent.<br><br>Scope 3 is not included. The policy explicitly states that Scope 3 disclosures should not be about pushing companies to address value chain emissions.<br><br>The focus appears to be on setting some targets, and does not include mention of accountability around meeting those targets. | for the reduction of GHG emissions or adoption of GHG goals in products and operations.<br><br>In its evaluation of Say on Climate proposals, the policy notes that ISS assesses whether the company has "sought and received third-party approval that its targets are science-based" |
| | Encourages companies to adopt policies around health and justice concerns related to decarbonization, including FPIC policies and guidance published like institutions like the Corporate Racial Equity Alliance and Grantham Institute | Policy mentions potential company engagement on impact to people, including communities, but only as they relate to "strategic or operational changes they are making in relation to their transition to a low-carbon economy" | Will support proposals asking for companies to prepare reports on their environmental and health impact on communities, including Indigenous communities<br><br>Policy does not include explicit policies on just transition |
| | Support measures to mitigate negative impacts on biodiversity and natural capital | May engage companies on such issues, but does not indicate voting guidelines for these issues. | The policy lacks specific guidelines on mitigating impacts to biodiversity and natural capital. |
| | Creates meaningful engagement and escalation | Escalation pathway outlined only for director accountability: may escalate the | Escalation pathway outlined only for director accountability as it relates to the |

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| Promotes decarbonization and mitigation of natural capital impact | pathways for high-emitting and high-impact companies | number of votes year-over-year if inadequate action is taken on climate | “minimum steps” needed to be aligned with a Net Zero by 2050 trajectory |
| | Embeds systemic risk frameworks/considerations into the policy, with efforts to mitigate<br>systemic risk guiding engagement, proxy voting, and investment decisions | Policy still focused on mitigating idiosyncratic risk, rather than risk to overall portfolio | As written, the policy still focuses on mitigating idiosyncratic risk, but the policy has historically recommended support for shareholder proposals that seek to mitigate systemic climate-related risks |
| | Invests significantly in climate solutions<br><br>Marries stewardship goals with portfolio construction to reduce real-world emissions | Policy is just an engagement and proxy voting policy; it is meant to complement, but is not, an investment strategy<br><br>Scope of companies includes those which “produce goods and services that contribute to real world decarbonization,” but does not specify the scope of those companies. | N/A - just a voting policy |
| | Provides explicit support for shareholder resolutions asking companies to assess or manage environmental justice-related or environmental human rights-related risks and factors | Will not support such resolutions as they are seen to “direct management strategy” | Will support shareholder proposals that call for the reduction of GHG emissions in its operations and products |
| | Ensures lobbying efforts are aligned with public decarbonization commitments | Lobbying should be consistent with the company’s stated strategic policy objectives.<br><br>Will vote to improve disclosures on how climate lobbying is aligned with the | Will support shareholder proposals on climate lobbying, and for disclosure of research that informed the company’s policies around climate change |

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| | | company's strategic policy decisions | |
| Scope | Encompasses both company engagement and proxy voting | Proxy voting and engagement policy. However, it is unclear how often corporate engagement will happen as the policy outlines that it will engage "when appropriate" to support voting, in contrast to having a fully developed engagement strategy | Just a voting policy |