A fundamental reshaping of finance: BlackRock's letter to CEOs

In his annual letter to the CEOs of public companies in which BlackRock invests, Larry Fink, Chairman and CEO, outlines why he believes that “we are on the edge of a fundamental reshaping of finance.”

Fink starts by stating that climate change has become a “defining factor in companies' long-term prospects.” He supports this statement with studies which reveal the physical and global impact of climate change. This evidence is causing investors to “reassess core assumptions about modern finance.” According to Fink, investors are asking questions like: “What will happen to the 30-year mortgage—a key building block of finance—if lenders can’t estimate the impact of climate risk over such a long timeline, and if there is no viable market for flood or fire insurance in impacted areas?” Fink emphasizes that a growing number of investors see climate risk as an investment risk, causing them to reassess that risk and asset values. And because, as Fink writes, “capital markets pull future risk forward,” this will likely cause investors to reallocate capital.

He goes on to state that because climate risk is an investment risk, sustainable investing is the best path forward for investment portfolios. He notes that progress in this area will be heavily dependent on government action and he calls on all governments and private sectors to work toward a low-carbon world.

Fink emphasizes the importance of transparent sustainability-related disclosures, asking companies in which BlackRock invests in to: “(1) publish a disclosure in line with industry-specific SASB guidelines by year-end, if you have not already done so, or disclose a similar set of data in a way that is relevant to your particular business; and (2) disclose climate-related risks in line with the TCFD’s recommendations, if you have not already done so.”
The letter closes by stating that BlackRock will vote against management and directors “when companies are not making sufficient progress on sustainability-related disclosures and the business practices and plans underlying them.” Fink’s letter includes a link to a BlackRock document addressing frequently asked questions on sustainability.

Concurrent with Fink’s letter, BlackRock issued a letter to clients titled “Sustainability as BlackRock’s New Standard for Investing.” The letter focuses heavily on how sustainability will be used in investing and how this type of investing will be made more accessible to clients.

The Sustainability Accounting Standards Board (SASB) is a US-based independent standard setting board. It has released 77 industry-specific standards to help companies voluntarily disclose financially material sustainability information. The Task Force on Climate-related Financial Disclosures (TCFD) has also developed recommendations to help companies disclose voluntary climate-related financial disclosures. BlackRock is a founding member of the TCFD.