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Jay Clayton and Mark Wiseman

Op-ed: BlackRock CEO Larry Fink is right about climate change disclosure

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Key Points

> The recommendation that public corporations disclose their plans for achieving carbon neutrality by 2050 should be embraced by companies and investors as well as pragmatically implemented by regulators globally, write Jay Clayton and Mark Wiseman.

The recommendation that public corporations disclose their plans for achieving carbon neutrality by 2050, as suggested in BlackRock CEO Larry Fink's recent letter and by others, should be embraced by companies and investors as well as pragmatically implemented by regulators globally.

We, a long-term investor and an experienced market regulator, welcome this disclosure framework for what it will do — greatly improve the mix of decision-useful information —and what it will not do — direct corporate strategy or, worse, pick winners and losers. And, based on the work that we have done with FCLT Global and others, we believe it can be implemented rapidly and effectively.

Starting with the widely accepted proposition that environmental regulation will drive economic activity toward carbon neutrality over the next thirty or so years, this recommendation provides a focal point for meaningful investor-company engagement.

Past transformations demonstrate the wisdom of this approach. Think of a key investing question that had its genesis in the 1990s: How will your company handle the transformation to a digital economy?

For the past thirty years, investors have used that forward-looking information to evaluate companies as well to assess broader shifts in economic activity. Also note that the answers to this digital transformation question have changed dramatically from year-to-year in response to the dynamics of the marketplace, including innovation, globalization and human capital development.

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A transformation toward a carbon neutral economy will undoubtedly affect the performance and prospects of many firms and sectors. Some will benefit greatly, others will suffer or even fail. These outcomes will be the result of countless strategic decisions and many shifting economic and regulatory factors.

Rightly, investors are thirsting to understand how these considerations will affect the future value of their investments. In addition, a host of institutional money managers want to demonstrate to their clients, including those with preferences for "green" or "sustainable" investments, that they are allocating capital accordingly.

Yet, the quality of the transformation-oriented information available to investors, companies and governments is far from what it should be. Each constituency bears responsibility for this state of affairs. Governments have been inconsistent in their approach to climate-related regulation; companies have been reluctant to provide forward-looking disclosures; and investors have been pursuing overly simplistic rules for classifying companies as "green" or not.

Fortunately, this framework leverages an incredibly powerful tool: the information, insight and perspective of thousands of companies on their climate-regulation compliance plans.

For some companies, their transformation would require very few adjustments. For others, such as airlines and utilities, transformation may not be possible without a fundamental change to their business and the market more generally, including, for example, the development of a carbon credit market.

Forward-looking information

This type of firm-specific, forward-looking information, centered on a common future objective, is just what investors should want as they allocate capital for the long term. It responds to the key question: does the company have a credible strategy for adjusting to and performing in the expected future commercial and regulatory environment?

Contrast this approach with a rigid, metric-based disclosure framework. In some industries, where climate effects have been considered for some time -- think property insurers -- specific metrics can clearly add insight. However, the search for universal metrics across our diverse economy is analogous to starting a long journey looking through the wrong end of the telescope.

Metrics have merit, can be incorporated in the approach we endorse, and their pursuit should not be abandoned, but they, like financial statements, provide limited forward-looking information.

What matters more to investors is how companies are going to take on the costs, risks and opportunities brought on by climate change and related regulation, just as expected future earnings matter more than past performance.

Access to this information also will provide an informed, cross-sector basis for assessing whether and how the emerging 2050 global goal can be achieved (and which countries, companies and individuals will bear the costs and reap the benefits) - questions governments, investors and companies should continue to ask.

Of course, adopting this disclosure framework will present issues of interpretation and implementation, including the extent to which companies would be legally responsible for their 2050 strategy disclosures.

To address concerns over unwarranted legal action in U.S. courts, these disclosures should be subject to a "safe harbor", with specific protection for good faith estimates and assumptions and liability on an intentional fraud standard.

We should be ushering in a sea change in collective, forward-looking disclosure, not introducing a game of firm-specific "gotcha". In this same vein, and to minimize the potential for unfair competitive advantages and asymmetries in enforcement that have undermined similar global regulatory efforts, these frameworks must be adopted and enforced consistently and contemporaneously.

The right framework

The regulation of a global issue requires common implementation to avoid regulatory arbitrage and corrosive industrial policy. Importantly, this framework can be adopted promptly and consistently, in contrast to a metric-specific framework which would require extensive cross-border analysis and debate and, for a host of reasons, could be outdated before implementation.

This framework not only reflects the fundamental characteristics of the underlying issue — a multi-decade, dynamic, market-based transition — it also provides fertile ground for a virtuous dynamic.

With this information, investors will be more likely to identify attractive investment opportunities faster, which, in turn, will both drive companies to provide more information (to attract more capital) and encourage innovation (think carbon capture).

More broadly, this dynamic can drive a better alignment between informed regulatory policy and company value. In other words, an enhanced convergence of values and value.

Jay Clayton, a CNBC Contributor, was the chairman of the SEC from 2017 to 2020. Prior to joining the commission, Clayton was a partner at Sullivan & Cromwell LLP, where he was a member of the firm's management committee and co-head of the firm's corporate practice. From 2009 to 2017, he was a Lecturer in Law and Adjunct Professor at the University of Pennsylvania Law School.

Mark Wiseman is a Canadian investment manager and business executive and an industry-leading expert in alternatives and active equity investments. Until last year, Wiseman was a Senior Managing Director at BlackRock and chairman of BlackRock's Global Investment Committee. Prior to joining BlackRock in 2016, he was president & CEO of the Canada Pension Plan Investment Board (CPPIB).