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<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

So it's my pleasure to introduce Brian Tomlinson, who's our Director of Research for the Strategic Investor Initiative. He's done a whole bunch of stuff, but he told me I can't go into detail on it. So he is just a traffic asset in the team. We're great to have him; and then Verity Chegar from Vice President, BlackRock Sustainable Investing. She is the ESG integration team lead within BlackRock Sustainable Investing, a team that is growing by leaps and bounds. And you had a really – Verity, you had a long walk to get here.

<<Verity Chegar, Vice President, BlackRock>>

I did. I was all the way across the street.

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

Right across the street, yeah, I know. You get the award for the shortest commute. So…

<<Verity Chegar, Vice President, BlackRock>>

Next time, we'll hold it in our office. That's a good idea.

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

So she focused on integrating environmental social and corporate governance in BlackRock since a small money manager, right. How much now, $8 billion or trillion?

<<Verity Chegar, Vice President, BlackRock>>

That's just north of $6 trillion.

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

$8 trillion, I got to get my letter…

<<Verity Chegar, Vice President, BlackRock>>

6…

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

6, $6 trillion, so I got to do better job at these introductions. And then Janine, I'm going to mispronounce you last name, sorry about that. Guillot?

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability Accounting Standards Board>>

Guillot.

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

Guillot, I should know that because we've been in so many panels together. She is the Director of Capital Markets Policy and Outreach at SASB where she leads outreach to investors support demand for standardized disclosure of not just any sustainabilities factors, the key word is material and she's going to explain what that is, what is material, material to whom? She has more than 25 years experience in operating strategy, risk management and finance roles in financial services. And you have the small job of serving as a Chief Operating Investment Officer with CalPERS, right, a good job.

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability Accounting Standards Board>>

I do. I do. And I live to tell about it, I'm still here.

<<Mark Tulay, Director, Strategic Investor Initiative, CECP>>

Has been a real leader in this movement and space for a long time and it's my pleasure to introduce both Janine and Verity and Brian for a panel on SASB and SII. First, I chat making the connection corporate adoption pathways. So with that, thank you.

<<Brian Tomlinson, Research Director, Strategic Investor Initiative, CECP>>

Thank you, Mark. I was told earlier that my voice was a little too quiet. So hopefully, I'm at the right level now. Good afternoon everyone. So we're going to spend a little bit of time talking about corporate adoption of sustainability reporting. It's a complete pleasure to be doing so with Janine and Verity. I want to briefly frame this with a little overview of what we're doing, SII. So far we've convened 20 companies over $1 trillion market cap to deliver long-term plans to long-term investors. So why do we do this? Active markets are too short-term. We see that there is a well calibrated short-term accountability environment namely the earnings call. It’s actually a fairly low utility to long-term investors.

And then we see that there’s this existing framework have required “disclosures” that doesn't really capture what drives business value. So we see the impact of that thesis across a range of sort of dimensions. We see managerial myopia. We see studies that suggest there's a bunch of returns left on the table. We see general investor dissatisfaction with the quality of disclosures just look at the way of responses to the SEC’s concept released a couple of years back saying actually we need these disclosures to be expanded to cover a broader range of information. So, we think at SII there’s a value to an additional piece of market infrastructure that curates a conversation specifically about the long between CEOs and between long-term investors and you've seen a little bit about that today.

I think just to clarify when I am talking about long-term short-term. This isn’t a zero sum game. There is not fixed pie of corporate information and more long-term means less short-term. It's not about that. It's more about enriching the information environment that companies create around themselves. So we want to talk about corporate adoption because we have been thinking a lot about scale. How do we get these long-term plans to be adopted across the Fortune 500 and then how do we get every listed company to basically deliver a long-term plan? How do we do that? And in order to do that what sort of guidance do companies need to do these long-term plans in a way that really works. So you see in your packs, we've got our investor letter, which has the seven questions that every CEO needs to be able to answer, it gives them quite sort of crunchy guidance on how you think and talk about the long-term.

And that's something that we expect both management and board to be able to do. So sort of turning to SASB and Janine in that context, we say in our letter essentially that talking about the long-term inevitably means talking about material sustainability factors. So if we're going to ask corporations to do that sort of what's the value to a corporation of SASB in terms of being able to think through those material sustainability factors to identify which ones they are. And then to disclose those in a way that's sort of decision useful to investors. You can sort of unpack that for us.

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability Accounting Standards Board>>

Yeah, so let me just talk a little bit about what SASB is doing. So SASB is developing standards for disclosure of sustainability information by companies to investors and that's really important with the only audience. There are many, many sustainability disclosure frameworks focused on different audiences. We are focused solely on the investor audience and I would say, primarily on a financial investor audience. So the SASB standards identify the sustainability issues that are most likely to impact financial performance in specific industries. So the standards are industry based. We set them for 79 industries and they identify what are the sustainability issues most likely to impact financial performance in each of those industries. And then what are metrics to measure performance on those issues in each of those industries.

And the goal of that is to provide information ultimately that's decision useful to investors and that's cost effective for companies to provide, so that’s really SASB in a nutshell. I think the question then is how does that connect to what. The Strategic Investor Initiative is doing around long-term plans and communication of long-term plans. And the way we think of this is the SASB standards really are a big enabler of communication of long-term plans to investors, because they really help CEOs and Investor Relations teams focus those long-term plans on those sustainability issues most likely to impact financial performance, which then connects ultimately to the long-term investors and long-term risk and long-term returns.

So that's how all of this and fits together. And I love that you mentioned scale because at the end of the day, one of the reasons I joined SASB is I'm a huge believer in standards as enabling industries to scale. And the standards and having standards for how companies are beginning to report and disclose this information to investors is what's ultimately going to enable investors to compare performance across industries and really evaluate what they're hearing in these long-term plans.

<<Brian Tomlinson, Research Director, Strategic Investor Initiative, CECP>>

So as a follow up to that, what is the scale of the SASB standards look like, because it feels like a number of different approaches are being taken at the moment? So you've had the JetBlue model of doing a separate SASB report, no pictures…

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability Accounting Standards Board>>

Yeah.

<<Brian Tomlinson, Research Director, Strategic Investor Initiative, CECP>>

Commentary, lots of metrics, you've seen Cisco do something on this. It seems being a lot more flexible about the forums in which you anticipate SASB standards being disclosed kind of moving away from the kind of 10-K robust kind of approach.

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability Accounting Standards Board>>

Yeah.

<<Brian Tomlinson, Research Director, Strategic Investor Initiative, CECP>>

So what does it kind of look like? And I suppose a second question on that, as you get more flexible about the venues does that mean that some of the sort of barriers that people have been talking about SASB adoption. My lawyer won't let me et cetera, which is a form of corporate lawyer seems a fairly impossible statement because you really want your lawyer to let you do something and surely can and he's a good one. Do those barriers become a little more illusory and more possible to overcome?

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability Accounting Standards Board>>

Yeah, yeah, so I think the important thing about SASB is we really, from day one, had this vision that SASB was a market based solution that it was – the standards were jointly created with input from investors and companies and it's a market-based solution to our market problem. And the feedback we're getting from the market and I think many of you know that SASB really advocated very, very strongly for that information's material sustainability information to be included in SEC filings.

And the reason for that is really to elevate the importance of that information to the same level of importance as all the other information that investors based decisions on. And the feedback we're getting very strongly from the market from both big investors and from companies is if the SEC disclosure is a significant barrier to adoption in the near-term because of concerns about legal liability that investors are willing to be more flexible about where companies actually disclose that information.

And so we're seeing companies starting to take a variety of approaches, you've mentioned JetBlue. JetBlue did a standalone SASB report. We are seeing some companies disclose the information in their 10-Ks and the regulatory filings, some people are putting it in an annual report wrapper; some people are referencing SASB in their sustainability reports. So I think that begins to move the ball forward, which it baby steps and incremental steps to before its progress and I think that's a very good thing. I think what's really important though is that we really think of this information is still being targeted generally into the investor reporting and the financial reporting ecosystem.

And if you think about the investor reporting ecosystem in a company, it's got strong internal controls, it's under the CFO's preview and it's subject to really significant board governance and oversight. And I think that's really what we should all aspire to for where material ESG information, how material ESG information is controlled and reported. Because at the end of the day it needs to be what I'd call investor quality and investors have certain expectations about investors that information they're going to use in investment decision making and what's going to be the quality and the reliability of that information. I don't know, Verity, if you have anything you want to add to that?

<<Verity Chegar, Vice President, BlackRock>>

Yeah, I'm just over here nodding my head, I think you're saying to me, and because from the – when we're talking about materiality, it's important to mention that we're talking about financial materiality.

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability Accounting Standards Board>>

Yes, thanks.

<<Verity Chegar, Vice President, BlackRock>>

Definition, so whereas a number of sustainability reports might have materiality assessments, those are not just looking at what it is a needle mover for an investor and that's what we're looking for. When we're shifting through the thousands of data points and indicators and discrete pieces of information that are available through internet scraping and other sort of available tools, we want to know what is going to make a difference for the long-term investment that we have in this particular company.

And so having a framework, having an industry specific set of metrics that have evidence of materiality that have support for being decision useful and cost effective for companies to disclose. It's meaningful because it narrows down the noise and produced as a signal of SASB. And that signal is very meaningful when you get a group of companies across an industry and ideally across an entire index or market than disclosing that information, so that you have a complete dataset to apply to your investment universe, which for us is almost every publicly available traded company plus a lot that aren't publically available. So, we're – a lot of our investor group, we might be talking about this, but a lot of our investment teams at BlackRock are thinking about how do we structure our day jobs.

So that in the normal course of our investment analysis and research and due diligence, we know what to focus on to make sure that we're hitting the mark on the things that are going to move the needle for these companies over the next one to ten years. And in the case of some of our private investments, we're talking about ten-year investment horizons; in the case of some of our very sophisticated clients who entrust their assets to us to invest in index strategies, they are definitely long-term and in many cases locked in to owning for those companies whether or not they're considered sustainability darlings or not. But those materiality issues are still going to affect companies in those spaces. And so, we'll talk about time horizons a little bit more perhaps, but just 100% support.

<<Brian Tomlinson, Research Director, Strategic Investor Initiative, CECP>>

So, BlackRock has used some fairly – BlackRock has used some fairly assertive rhetoric this year about its expectations with regards to companies and the contributions they make to society. In your engagement guidance, you've referenced SASB has have a range of other investors such as Neuberger Berman and Goldman's. And so what's the process or what's your sort of primary method by which you're going to encourage corporations to adopt SASB? Is it through that sort of patient BlackRock engagement, is that the primary method? Or are there other things the large investors like BlackRock can do to really sort of push this along and put it along the agenda of every sort of large American corporation?

<<Verity Chegar, Vice President, BlackRock>>

Yeah, so BlackRock is an asset manager where our mission is to help our clients to achieve better financial futures. And we've observed that most of our clients are interesting assets to us to manage that are oriented toward the long-term, their retirement funds, but those are defined contribution or defined benefit pension plans or individual investors like you and me who own shares of an ETF. So those are long-term oriented dollars. So our Chairman and CEO, Larry Fink has been a long-term proponent of long-term investing, we're a CECP member and a number of other long-term oriented organizations.

And he writes an annual letter to CEOs as you know and in that letter he's been mentioning encouraging companies in which we invest to really be able to a lot more clear and forthcoming especially to investors about their long-term strategy. And also he's been specifically calling out and inviting companies to talk about the environmental social and governance issues that are going to either help that company achieve that long-term strategy or potentially thwart the execution of that strategy.

This year he – the letter got a lot of attention for mentioning social purpose and really we think our purpose is to help our clients and a part of that purpose is acting as a fiduciary and it's through that fiduciary lens that we act to as a good steward of the assets that our clients can trust us. And that is where our BlackRock investments stewardship team comes into play, which does the work of engaging with investee companies, portfolio companies and including proxy voting. And it's that team that has these long-term oriented conversations.

And I was thinking about some of the teams we're talking about and SII initiatives about getting away from the earnings call and it's not – I don't think it's a mistake that some of these corporate governance professionals have this long-term view, they're talking about long-term issues including environmental social and governance issues. And their primary conversation tool is the proxy statement, right, which is an annual filing. It's not a quarterly filing. But I don't think any corporate governance professional would ignore some kind of material issue that might arise in the interim, it's just that some of these – some of the time and space allowed. It is available to these professionals to talk about longer-term issues.

But that's one team at BlackRock, we have $6 trillion of investments at work for our clients. About two-thirds of that is indexed investing and that's where this sort of investment stewardship activity comes into play really strongly in order to make sure that we're acting as a fiduciary to ensure that the companies are executing on their long-term strategy and articulating that strategy to all investors not just us.

Then there is two-thirds of our business which is actively managed. And these teams across styles, across asset classes are increasingly figuring out how to formally consider environmental social and governance information in their day jobs in their due diligence and research on every investment. And then you come to what do you look at, what's the data you look at. If your investment universe is X index, but you only get sustainability information from the leaders, the tip of the spear folks, it's very hard to do that fiduciary work to compare apples to apples. So you come up with other sources of information, you come up with other ways to get meet the mark.

<<Brian Tomlinson, Research Director, Strategic Investor Initiative, CECP>>

And we talked about sort of long-term, short-term and the role sort of the earnings call whether or not that's producing decision relevant information. Is there a role for sort of SASB standards to be communicated in the earnings call or do you regard it as sort of an essentially a long-term metric? Is it something that you can pull down into the shorter-terms at capital environments?

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability Accounting Standards Board>>

Yeah, that's a fantastic question and we get asked this all the time. Mainly because we always hear – we often hear from companies that investors don't care about sustainability issues, don't care about ESG issues because the questions don't come in the earnings calls and there's definitely a lot of people with a strong belief that until the question show up in the earnings calls CFOs particularly and IR people will never believe that investors care about this.

So often people suggest what you just have to get people to ask about ESG questions in earnings calls. There is another point of view and I think I kind of live with the other point of view, which is the purpose of the quarterly earnings call is to talk about quarterly earnings and the likelihood – and to help sell-side research analysts suggest relatively near-term earnings forecasts. So to think – and this entire ecosystem built around that very specific purpose. So to think we're going to change that purposes probably unlikely and at least this is where I've come down on this.

And I think what SII is doing with these forums, which is creating a different set of forums with a different purpose with to some extent different people maybe actually a more effective long-term strategy. I think the challenge is though those quarterly earnings calls are incredible resource. I mean they are – they consume tremendous amounts of resources. So if you're a CFO or an IRR person, who's on the quarterly earnings call treadmill, how do you get the resources and the mindshare to really think more – about more strategic communication? And I think that's a really serious issue and I don't know how to actually solve that problem.

<<Verity Chegar, Vice President, BlackRock>>

Yeah, we've talked about the ecosystem of communications to investors that companies use as a channel and there's the earnings conference call, but then there are many other forms, right. And the Apple's and the PG&E's are not waiting around for the quarterly earnings questions to say front and center to their investors that that these initiatives, these capital investments are tied to long-term issues including capital change and investors who can vote with their dollars are welcome in the case of Tim Cook, are welcome and invited to take their investment dollars elsewhere. I think CEOs are leaders and that's why they can do things like that, they don't wait around.

<<Brian Tomlinson, Research Director, Strategic Investor Initiative, CECP>>

Yeah, right. I mean, it seems to me that there are – there is a short-term information environment and that has a certain set of metrics in a certain audience and then there's a long-term information environment, which has a different set of metrics and perhaps a different audience. And then the question is, is there some sort of connected tissue between those two things? So if you're sharing long-term metrics through a long-term plan, those metrics hope to stop appearing in your short-term calls.

And we’ve seen some companies doing some work around that to sort of change the complexion of the earnings call to a degree say BD is starting a new model, well that has a piece in Forbes on that, which is worth reading as we should all read Bob’s work. And J&J have done some changes there as well to sort of start talking a little bit more about governance and purpose in the earnings call along with the general change of ending practices like a quarterly earnings guidance…

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability Accounting Standards Board>>

Right…

<<Brian Tomlinson, Research Director, Strategic Investor Initiative, CECP>>

Issuing annual guidance in a range which is just again encouraging people to just lift their eyes to a slightly longer-term horizon although clearly if one year is long-term. So we have five minutes remaining. Do we have any questions?

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability Accounting Standards Board>>

Yeah.

<<Brian Tomlinson, Research Director, Strategic Investor Initiative, CECP>>

Yes. Do we have roving mic?

Q&A

<Q>: Thank you so much. My question is to BlackRock. I imagine that you might evaluate around 50 to 100 investments a month. I don’t know what’s the number?

<A – Verity Chegar>: 2000…

<Q>: 2000, okay. So how many of them are really following sustainability standards or ESG metrics. And what’s implemented and what’s the way that this type of information really has and really matters for financial decision making? And my second question would be in terms of – I’m sure that these 2,000 investments, I’m sure that they are not all sustainable and they do not are not following this. But if you choose any of these investments that are not following this metrics, how do – if you choose to invest, how do you follow-up on them after that?

<A – Verity Chegar>: Sure. So I think there is no question that sustainability has risen to the level of the c-suite and there is more attention and more resources being devoted to that effort. But it's not all intended for the investor audience. So I think Evan Harvey had a slide up ratio of the S&P 500 adoption of corporate sustainability reports reaching I think it was 85% or something last year. And that's encouraging, but how much of that information is actually financially immaterial to an investment decision, I'm going to argue it's not the majority.

Your other question was about what does move the needle for us. And I think you're also getting at the fact of, how do we decide absent information. So when thinking about how to shift through all the data points we find SASB's industry specific standards to be very useful because we recognized that companies operate in a certain industry with certain challenges that are inherent to that particular industry. And we also recognize that sustainability issues are ultimately business operating issues. And so having this kind of basic understanding you start to understand that companies that are managing these risks inherent to doing business have an opportunity to set themselves apart.

The standards are very useful to sit through all that noise and focus on what's relevant for companies in that specific industry. And then when you're applying that across the investable universe of many thousands of stocks when you're not getting the gaps – when you have gaps and you're not getting reporting on all of these indicators then you have to go to sort of third-party sources to kind of fill in the gaps. That's the thing we'd like to circumvent and see more companies telling us directly and in a timely fashion according to their own reporting cycles linked with their internal controls. So that we get the most quality, most accurate data on a timely basis in order to inform our investment decisions.

<Q – Brian Tomlinson>: Yes, at the back.

<Q>: Hello, [indiscernible] (0:25:49). So timely conversation, as I was having a conversation with a client this morning about producing about first ESG report. And I'll ask you one of the questions that they asked me because you'll have a much better answer than I'm sure I gave them, which is around sort of validation of the data. And then I guess this also bridges whether you're going to put some form of ESG reporting into your filings and how robust the dataset is. And so, my advice was to sort of implement into the internal controls and potentially into the auditor process. But I guess if they're collecting data, how robustly does it need to be validated? Do you need to get the auditor to sign off it goes as a separate report or it just not sufficient to have an internal systems et cetera?

<A – Janine Guillot>: Yeah, you'll start an outlet…

<A – Verity Chegar>: Yes, I'll start and add what I miss. So I think one benefit when the whole question of assurance is that there is no standard by which to assure the data that's being collected. And so that's another opportunity that SASB brings to the marketplace, which is providing a standard with technical protocols about how to gather that data in a robust fashion. And that can be repeated and then verified and assured. Want to make…

<A – Janine Guillot>: Yes, no, I agree. Verity, what Verity just said was perfect. And I think this is a very complex and technical area, right. So people tend to ask the question of should the information be audited, right. Well, the technical reality is there are multiple levels of assurance and you need to determine what is the right level of assurance and can the information be assured. And so, I worry about that focused on assurance or auditing being a barrier to companies doing anything and I think the first step is just make sure that data is prepared using strong internal controls. So that one day, it could be assured. But at least just start collecting and validating the data and making sure you have good systems to collect the data.

<<Brian Tomlinson, Research Director, Strategic Investor Initiative, CECP>>

Terrific, well, thank you so much.

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability

Thank you.

<<Verity Chegar, Vice President, BlackRock>>

Pleasure.

<<Janine Guillot, Director of Capital Markets Policy and Outreach, Sustainability

Thank you. It is a pleasure.

<<Brian Tomlinson, Research Director, Strategic Investor Initiative, CECP>>

Give it up.