

March 27, 2020

The Honorable Jerome Powell
Chair
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue N.W.
Washington, DC 20551

Dear Chair Powell:

The undersigned write to express concern with the Federal Reserve's decision to retain BlackRock to manage its massive corporate debt purchase program in response to the COVID-19 crisis, as well as related issues that this decision highlights.

The evolving and urgent circumstances surrounding the economic response to the COVID-19 crisis require transparency, oversight, and extreme caution. We cannot afford to allow the interests of private corporations to supersede the needs of the American people and the long-term stability of our economy.

As such, this contract raises serious questions about:

- Competition and systemic risks associated with BlackRock's concentration of power in the asset management industry;
- Lack of transparency around the use of taxpayer funds to contract BlackRock for this purpose;
- Inherent or perceived conflicts of interest for BlackRock surrounding its ability through this program to purchase and use its own funds and financial products;
- The lack of conditions on public financial support for private industry and industry practices that harm the public good;
- The lack of preparation of the financial system for the coming exogenous shocks to the financial system from climate change, including in this program.

This contract hands even more financial power over to BlackRock, already the world's largest asset manager

BlackRock is the world's largest asset manager; as of February 2020, it managed over \$7 trillion of the global economy. By giving it control of its debt purchase program, the Fed is putting [tens of billions](#) more under BlackRock's overall management.

BlackRock leads an industry with growing market power and concentration. [Academics](#), [civil society organizations](#), [financial insiders](#), Indigenous peoples, and [regulators](#) have increasingly signaled risks associated with the concentration of power of this sector and the systemic impact it has within the finance industry.

This move also further increases data and market access for BlackRock's Aladdin, which is already used globally by financial firms and handles data for [at least 10 percent](#) of world assets.

By giving BlackRock full control of this debt buyout program, the Fed is further entwining the roles of government and private actors. In doing so, it makes BlackRock even more systemically important to the financial system. Yet BlackRock is not subject to the regulatory scrutiny of even smaller systemically important financial institutions.

What safeguards has the Fed put in place to respond if BlackRock itself is in financial crisis and needs a bailout?

Lack of transparency in the use of taxpayer funds

A previous time that the Federal Reserve hired BlackRock in a time of crisis, it profited handsomely while American people never fully recovered. In 2008, BlackRock was paid [\\$12 million](#) by the Federal Reserve for a few days' worth of work to manage just one financial firms' accounts in late 2008 and early 2009. By comparison, as a 2017 [New York Times analysis](#) found, the average American household was still 30 percent poorer, in net worth, than in 2007.

What selection process did the Fed use to select BlackRock? How much is the Fed paying BlackRock for its services now?

Inherent conflicts of interest

Conflicts of interest abound. BlackRock is the largest owner of many of the firms over which it will make decisions. As a shareholder in nearly all companies, BlackRock stands to benefit from the propping up of certain companies and industries. [Many scholars have expressed concern](#) about mega-firms like BlackRock owning considerable shares across companies within the same industry or sector and the potential negative impact it has on competition and investment managers' stewardship incentives.

Furthermore, BlackRock is the largest purveyor of ETFs, and this deal gives it the power to buy up its own ETF products, potentially earning double.

What is the Fed doing to address any potential conflicts, including the fact that BlackRock's very business model appears to present an inherent conflict of interest?

No-strings-attached financial support for all kinds of problematic industries or industry practices

As far as is known publicly, there are no conditions or restrictions on what debt is purchased or what companies must do to qualify for debt purchases outside of their credit rating. This could mean that those companies could engage in stock buybacks or provide enormous CEO compensation packages, despite these practices exacerbating imbalances in corporate balance

sheets and being a significant reason why these companies are so susceptible to the current crisis. This also means that industries that actively harm the climate - and by extension the financial system - could get unconditional support (more on this below). To address these and related issues, advocacy organizations have laid out [Five Principles of Just Covid-19 Relief and Stimulus](#).

What kinds of conditions is the Fed applying for companies to get debt purchase assistance?

Resilience to Climate Shocks Must Be Part of The Fed's Response to the COVID-19 Crisis

Measures to respond to the COVID-19 pandemic should not exacerbate the ongoing threat of catastrophic climate change. Instead, recovery measures must prepare the financial sector for the [threat to the financial system posed by the climate crisis](#). Now is not the time to relax rules on financial institutions' ability to weather future crises, particularly the climate crisis, the impacts of which continue to unfold even as we deal with COVID-19. Instead, the Federal Reserve and other financial regulatory agencies should be bolstering the resilience of the financial system to safely handle the climate shock that is barreling towards us.

Helping our economy weather this global pandemic is vital but should not accelerate climate change as part of our rescue efforts. Companies that continue the expansion and production of fossil fuels are inconsistent with goals to manage the climate crisis; propping them up without recognition of human rights, Indigenous rights and clear Paris-compliant transition plans is unacceptable for any prudent monetary or fiscal policy.

While economic recovery for everyday Americans is important right now, corporate bond-buying programs such as these may be stealth fossil fuel company bailouts if adequate climate safeguards are not applied. The Federal Reserve should not prop up industry destroying the climate and creating further risk to the financial system, and many of our organizations will be asking Congress to take legislative action to prevent this.

How is the Federal Reserve ensuring that its response to COVID-19 will not exacerbate financial system risks from climate change?

We look forward to your response to these questions.

Sincerely,

350.org
350 Butte County
350 PDX
Amazon Watch
American Economic Liberties Project
Center for International Environmental Law
Earth Ethics, Inc.

Earth Guardians
ESG Transparency Initiative
Fossil Free California
Friends of the Earth - US
Greenpeace US
Idle No More SF Bay
Indigenous Environmental Network
Midori Law Group
New York Communities for Change
Oil Change International
Peoples Climate Movement - NY
Preventable Surprises
Public Citizen
Rainforest Action Network
Reclaim Finance
Revolving Door Project
Sierra Club
Stand.Earth
The Sunrise Project
Take On Wall Street
Transition US
Urgewald
Women's Earth and Climate Action Network (WECAN)

CC:

Dr. John Williams, President, Federal Reserve Bank of New York
The Honorable Maxine Waters, Chair, House Financial Services Committee
The Honorable Patrick McHenry, Ranking Member, House Financial Services Committee
The Honorable Mike Crapo, Chair, Senate Banking Committee
The Honorable Sherrod Brown, Ranking Member, Senate Banking Committee
Laurence Fink, CEO, BlackRock
Charles Hatami, Global Head of Financial Institutions Group and Financial Markets Advisory,
BlackRock