Our 2023 Policies in Context

BIS’ policies are comprised of our Global Principles and market-specific voting guidelines.2 Each year, we review our policies and update them as necessary to reflect changes in market standards and regulations, insights gained over the year through third-party and our own research, and feedback from clients and companies. We endeavor to take a globally consistent yet locally relevant approach, informed by market-specific corporate governance codes, listing standards and practices. Our goal is to ensure that clients and companies are aware of our views on current and emerging corporate governance practices that we believe support long-term shareholder value creation.

Overall, our Global Principles continue to reflect the overarching corporate governance standards and norms that we believe support companies in delivering long-term durable financial performance. In our Global Principles, we made two modifications on nature-related disclosures and the timing of sustainability disclosures, as described on page 4. Our Global Principles and market-specific voting guidelines reflect these minor changes, as relevant, and include language refinements to clarify meaning and incorporate any changes specific to the local market.

We do not anticipate material changes in our voting, and much of our engagement with companies will be continuing the dialogue on material risks and opportunities that we had in 2022.

Summary of our 2023 BIS Policies

Below we outline a summary of our 2023 stewardship policies across our five enduring Engagement Priorities. We believe that companies focusing on these topics, as relevant to their business models, will enhance their ability to deliver long-term financial returns for our clients, the vast majority of whom are investing to meet long-term goals, such as retirement.

01 Board quality and effectiveness

We believe there are certain fundamental elements of governance practice that are intrinsic to a company’s ability to create long-term value. One of these is having a board of highly qualified, engaged directors with professional characteristics relevant to a company’s business who can add value and be the voice of shareholders in board discussions. Director tenure, independence, assessment and continuing development also influence board quality and effectiveness.
It is in this context that we are interested in diversity in the board room. We see it as a means to promoting diversity of thought and avoiding ‘group think’ in the board’s exercise of its responsibilities to advise and oversee management. It allows boards to have deeper discussions and make more resilient decisions. We continue to ask boards to disclose how diversity is considered in board composition, including professional characteristics, such as a director’s industry experience, specialist areas of expertise and geographic location; as well as demographic characteristics such as gender, race/ethnicity and age (disclosed in aggregate, consistent with local law). We continue to recognize that building a strong, diverse board can take time.

**02 Strategy, purpose and financial resilience**

We engage on long-term corporate strategy, purpose and financial resilience to understand how companies are aligning their business decision-making with their purpose and adjusting their strategy and/or capital allocation plans to address the risks and opportunities in their business model in order to deliver long-term value for their shareholders. Boards play an instrumental role in advising management on long-term strategy and, as such, we believe companies should affirm that the board has been actively engaged with management in the process of setting the company’s strategic direction.

**03 Incentives aligned with value creation**

Appropriate and transparent compensation policies are a focus in many of BIS’ engagements with the companies we invest in on behalf of clients. We believe it is important for companies to disclose the connection between compensation policies and outcomes and the financial interests of long-term shareholders. We continue to believe that there should be a clear link between variable pay and a company’s operational and financial performance. Performance metrics should be stretching and aligned with a company’s strategy and business model. Long-term incentive plans should vest over timeframes aligned with the delivery of long-term shareholder value. As explained in 2022, BIS does not have a position on the use of sustainability-related criteria in compensation, but in our view, where companies choose to include them, they should be as rigorous as other financial or operational targets.

**04 Climate and natural capital**

It is our view that climate-related risks and opportunities can be a key factor in many companies’ long-term prospects. We continue to look for companies to disclose strategies they have in place that mitigate and are resilient to any material risks to their long-term business model associated with a range of climate-related scenarios. This includes a scenario in which global warming is limited to well below 2°C, considering global ambitions to achieve a limit of 1.5°C. It is up to each company to define their own strategy. We look to companies to disclose short-, medium- and long-term targets, ideally science-based targets where these are available for their sector, for Scope 1 and 2 greenhouse gas emissions (GHG) reductions and to demonstrate how their targets are consistent with the long-term economic interests of their shareholders. At this stage, we continue to view Scope 3 emissions differently from Scopes 1 and 2 given methodological complexity, regulatory uncertainty, concerns about double-counting, and lack of direct control by companies. While we welcome any disclosures and commitments companies choose to make regarding Scope 3 emissions, we recognize these are provided on a good-faith basis as methodology develops. We continue to view the efficient management of natural capital as core to long-term corporate strategy and performance for companies with material natural resource impacts or dependencies.

**05 Company impacts on people**

In our experience, companies are better positioned to deliver long-term shareholder value when they build strong relationships throughout their value chain, including with employees, business partners (such as suppliers and distributors), clients and consumers, regulators, and the communities in which companies operate. As a long-term shareholder on behalf of our clients, we continue to find it helpful when companies disclose how they have identified the interests of these groups and taken them into consideration in business decision-making. We are also interested to understand the role of the board with respect to these matters, given it is well positioned to ensure that management’s approach is informed by and aligns with the company’s strategy and purpose.
Two modifications for 2023
We made two modifications to our 2023 Global Principles, both prompted by market-level developments:

- **Nature-related factors**: We continue to encourage companies to consider reporting on material sustainability-related risks and opportunities in their business models. While guidance is still under development for a unified disclosure framework related to natural capital, given the growing materiality of these issues for many businesses, we believe enhanced reporting would help investors’ understanding, and we note that the emerging recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD) may prove useful to some companies. We recognize that some companies may report using different standards, which may be required by regulation, or one of a number of other private sector standards.

- **Sustainability reporting**: We recognize that companies may need time after fiscal year-end to collect, analyze and report accurate climate- and sustainability-related data. To give investors time to assess the data, we encourage companies to produce climate and other sustainability-related disclosure sufficiently in advance of their annual meeting.4

Our revised policies will be effective beginning January 1, 2023. In Q1 2023, BIS will publish our Engagement Priorities and thematic commentaries, which provide additional information for companies about our approach to engagement on the corporate governance and sustainability-related risks and opportunities that can be material to the long-term financial performance of the companies in which our clients invest.

**Our Investment Stewardship toolkit**

**Engaging with companies**

Engagement is how we build our understanding of a company’s approach to corporate governance and material sustainability-related risks and opportunities in their business models, and how we provide feedback on issues we believe support long-term value creation. In our experience, multi-year engagements with companies can lead to constructive outcomes for businesses and shareholders alike. In the 2021–22 proxy year, BlackRock’s 70-member investment stewardship team held 3,690 engagements with 2,460 unique companies in 55 markets.5 BIS operates across ten offices globally and engages locally with companies, enabling more frequent and better-informed dialogue, often in the local language. The team’s diverse perspectives enhance our effectiveness as a trusted partner to clients and a constructive investor on their behalf.

**Voting in our clients’ interests**

Voting is how we signal our support for or concerns over a company’s corporate governance:

1. **Our primary focus is on the board of directors to promote sound corporate governance**. The performance of the board is critical to the financial success of the company and the protection of shareholders’ interests. As part of their responsibilities, board members have fiduciary duties to shareholders in overseeing the strategic direction and operation of the company. For this reason, BIS sees engaging with, and the election of, directors as one of our most important and impactful responsibilities. **Voting on director elections is a globally consistent signal of concern when boards do not seem to have acted in shareholders’ long-term financial interests.**

2. **BIS votes on a range of other management proposals**. Many concern routine matters, such as to approve the reappointment of the auditor or to approve executive pay outcomes. From time to time, we also vote on proposals addressing non-routine matters, such as a significant acquisition. A noteworthy development in some markets is the growing number of proposals to approve a company’s climate action plan, commonly referred to as say on climate. BIS supports companies whose approach, in our assessment, is consistent with the interests of our clients as long-term shareholders.

3. **When assessing shareholder proposals, we evaluate each proposal on its merit, with a singular focus on its implications for long-term value creation**. We would not support proposals that we believe would result in over-reaching into the basic business decisions of the company. Where a proposal is focused on a material governance or sustainability-related risk that we agree needs to be addressed and the intended outcome is consistent with long-term value creation, we will look to the board and management to demonstrate that the company has met the intent of the request made in the shareholder proposal. Where our analysis and/or engagement indicate an opportunity for improvement in the company’s approach to the issue, we may support shareholder proposals that are reasonable and not unduly prescriptive or constraining on management. While we may not agree with all aspects of a shareholder proponent’s views or all facets of the proponent’s supporting statement, we may still support proposals that address material governance or sustainability-related risks where we believe it would be helpful for shareholders to have more detailed information on how those risks are identified, monitored, and managed to support a company’s ability to deliver long-term financial returns. We may also support a proposal if management is on track, but we believe that voting in favor might accelerate progress.
BlackRock Voting Choice

An industry first and a proprietary offering, Voting Choice enables institutional clients to participate in voting decisions where legally and operationally viable. Over the past five decades, innovation and technology have led to greater choice and democratization in investing strategies, structures, and products. Today more than 100 million people can choose among thousands of low-cost, high-quality choices across asset classes and markets. BlackRock believes that greater choice should extend to shareholder proxy voting. Announced in October 2021, BlackRock Voting Choice aims to make proxy voting easier and more accessible for eligible clients. BlackRock is committed to a future where every investor can participate in shareholder voting. Clients representing 25% of the $1.8 trillion\(^6\) in eligible assets are enrolled in Voting Choice.\(^7\) Visit www.blackrock.com/votingchoice to learn more.

Contributing to market standards

This is how we encourage market-level policies and practices on governance and sustainability reporting that are aligned with our clients’ interests as long-term shareholders.

Transparency in our activities

We are committed to being transparent in our stewardship work to advance the long-term financial interests of our clients. Visit www.blackrock.com/stewardship to learn more. In the 2021–22 proxy year, BIS voted on behalf of our clients at the shareholder meetings of 14,140 companies across 70 markets, highlighting the breadth and depth of our stewardship efforts on behalf of our clients.

Looking ahead to 2023

Consistent with our long-term approach, the changes made to our stewardship policies for 2023 build on our approach in prior years. We do not anticipate material changes in our voting as a result, and much of our engagement with companies will be continuing the dialogue on material risks and opportunities that we had in 2022.

Endnotes

1. Material sustainability-related risks and opportunities are the drivers of risk and value creation in a company’s business model that have an environmental or social dependency or impact. Examples of environmental issues include, but are not limited to, water use, land use, waste management and climate risk. Examples of social issues include, but are not limited to, human capital management, impacts on the communities in which a company operates, customer loyalty and relationships with regulators. It is our view that well-managed companies will effectively evaluate and manage material sustainability-related risks and opportunities relevant to their businesses. Governance is the core means by which boards can oversee the creation of durable, long-term shareholder value. Appropriate risk oversight of business-relevant and material sustainability-related considerations is a component of a sound governance framework.

2. BIS also publishes our Engagement Priorities and thematic commentaries, which provide additional information for companies about our approach to engagement on business risks and opportunities that are material to the companies in which our clients invest, including those related to sustainability-related risks and opportunities.

3. The global aspiration to achieve a net-zero global economy by 2050 is reflective of aggregated efforts; governments representing over 90% of GDP have committed to move to net-zero over the coming decades. In determining how to vote on behalf of clients who have authorized us to do so, we look to companies only to address issues within their control and do not anticipate that they will address matters that are the domain of public policy.

4. In July 2022, BIS submitted responses to the International Sustainability Standards Board’s (ISSB) Exposure Draft ED/2022/S1 on sustainability-related financial information and ED/2022/S2 Climate-related disclosures. In our responses, BlackRock was supportive of the ISSB’s objective of providing a global baseline of sustainability-related disclosure standards. We provided feedback with regard to the location and timing of climate-related disclosures, the need for flexibility in areas where the relevant data, methodologies and controls are still emerging, and with regard to consistency across public and private companies. In addition, in June 2022 BlackRock submitted our response to the Securities and Exchange Commission’s (SEC) proposed rule, “Enhancement and Standardization of Climate-Related Disclosures for Investors,” where we reiterated our support for climate-related disclosures aligned with the Taskforce on Climate related Financial Disclosures (TCFD) framework and our affirmation of the relevance of climate risk to investors’ decision-making processes.

5. Source: BlackRock. Sourced on July 11, 2022, reflecting data from July 1, 2021 through June 30, 2022. Total engagements and unique companies engaged numbers are rounded to the nearest ten. Team composition as of July 17, 2022.

6. Currency shown in USD.
