Corporate governance and proxy voting guidelines for Asia ex Japan, China, and Hong Kong securities

JANUARY 2019

Contents

These guidelines should be read in conjunction with the [BlackRock Investment Stewardship Global Corporate Governance and Engagement Principles](#).

Executive Summary

BlackRock, Inc. and its subsidiaries (collectively, “BlackRock”) seek to make proxy voting decisions in the manner most likely to protect and enhance the economic value of the securities held in client accounts. BlackRock has developed guidelines for the key markets in which it invests. The regional guidelines incorporate the legal framework of each region as well as the specific regional market practices. There may be slight variances due to differing market practices across regions.

Our policies for Asia ex Japan are based on the relevant laws, regulation, market specific guidelines, and market practice for each market. These all have in common the principles of accountability, transparency, fairness, and responsibility. We set out below both general and market-specific expectations derived from our global principles and local codes and regulation.

Our approach to voting and corporate engagement is also informed by guidance on exercising ownership responsibilities issued by organizations such as the United Nations (the Principles of Responsible Investment) and the International Corporate Governance Network. We are actively involved in these and a number of other regional and global organizations and believe our principles are consistent with their guidance.

“Comply or explain” approach

In certain Asian markets, local corporate governance guidelines are underpinned by an approach that allows companies not to adopt recommended practices as long as a cogent explanation has been provide for the non-compliance with the particular practice. BlackRock expects companies that do not follow recommended practices in these markets to provide explicit justification of any deviation from market based practice, explaining how these serve the interests of the company’s shareholders.

Engagement

BlackRock takes an engagement-first approach to corporate governance and engagement, to the extent possible, as we believe this approach results in both better informed decisions and a more consistent dialogue with companies. Activities are coordinated by the Asia ex Japan Investment Stewardship team, bringing in investment colleagues as relevant to the focus of the engagement.

We have meetings and discussions with board directors and management to discuss aspects of corporate governance such as management of succession planning of the board, executive remuneration, board structure and performance, related-party transactions, quality of company disclosure, and any environmental and social issues which we believe have the potential to unnecessarily increase the risk profile of the company. We may also participate in joint intervention with other shareholders where concerns have been identified by a number of investors. Alternatively, for our active holdings, we may consider reducing our holding in a company which is unresponsive to shareholder concerns; or for index as well as active holdings, we may publicly oppose management who are unresponsive to these concerns.

Proxy voting approach

BlackRock is one of the world's largest institutional investors, with extensive investment and engagement experience globally. The universe we cover in Asia ex Japan includes but is not limited to Bangladesh, China, Hong Kong, India, Indonesia, Kazakhstan, Malaysia, Pakistan, Papua New Guinea, Philippines, Singapore, South Korea, Sri Lanka, Taiwan, Thailand and Vietnam. BlackRock aims to vote at 100% of the annual and extraordinary shareholder meetings where we have the voting authority to do so and where there are no opportunity costs associated with exercising a vote (such as share blocking constraints) that are expected to outweigh in the determination of the Investment Stewardship Group the benefit BlackRock clients would derive by voting on the proposal.

These guidelines will be used to assist BlackRock in assessing proposals presented at shareholder meetings. When assessing any proposal put to shareholders, BlackRock takes into account the unique circumstances of the relevant company and of the potential impact of such a proposal on the sustainable growth of the company. We aim to engage with management or members of the board, as appropriate, on contentious and high profile issues before determining how to vote. We also take into consideration market codes of governance and stewardship as applicable. At a minimum, BlackRock expects companies to meet the regulatory requirements of company law, listing rules of local exchanges, and any regional corporate governance codes.

Corporate governance and proxy voting guidelines

These guidelines are divided into seven key themes as follows:

- Boards and directors
- Accounts, statutory reports, auditors, and audit-related issues
- Capital structure, mergers, asset sales, and other special transactions
- Strategy, purpose, and culture
- Compensation and benefits
- Environmental and social risks and opportunities
- General corporate governance matters

Boards and directors

Composition of the board of directors

The board of a company should comprise competent, experienced, and independent directors who can discharge their duties to shareholders. Independence allows directors to provide objective oversight in the decision-making process of the board without any conflicts of interest or undue influence from connected parties.

Assessment of independence

An independent director is a director who is not a member of management (a non-executive director) and who:

- Does not have, and does not represent a shareholder with, a substantial shareholding in the company
- Has not within the last five years been employed in an executive capacity by the company or another group company, and has not been appointed a director immediately after ceasing to hold any such employment
- Has not within the last three years been a principal or employee of a material professional adviser or a material consultant to the company or another group member
- Is not a material supplier or customer of the company or another group member or an officer of or otherwise associated directly or indirectly with a material supplier or customer
- Has no material contractual relationship with the company or another group member other than as a director of the company
- Is free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company
- Is not an immediate family member of any of the aforementioned
- Is not connected through interlocking directorships with the company

Conflicts of interest

BlackRock believes that all independent directors should be free from material conflicts of interest. Non-executive directors, their immediate family or a related professional company, who or which have provided material professional services to a company at any time during the last three years, may be placed in a position where they may have to make decisions that may place their interests against those of the shareholders they represent. BlackRock may vote against the election / re-election of a director where an identified conflict of interest may pose a significant and unnecessary risk to shareholders. All potential conflicts of interest should be declared prior to appointment and at each board meeting in relation to any specific agenda item.

Separation of chairman and CEO position

We believe that independent leadership is important in the board room. There are two accepted structures for independent board leadership: 1) an independent chairman; or 2) a lead independent director. We generally consider the designation of a lead independent director as an acceptable alternative to an independent chair if the lead independent director has a term of at least one year and has powers to: 1) introduce items on board meeting agendas; 2) call meetings of the independent directors; and 3) preside at meetings of independent directors. Where a company does not have a lead independent director that meets these criteria, we generally support the separation of chairman and CEO.

Length of service

BlackRock believes that shareholders are best served when there is orderly renewal of the board. This should result in directors with accumulated experience while at the same time introduce fresh minds and experience to the board as well as provide adequate succession planning. An effective renewal process will ensure non-executive directors do not serve for such lengths of time that their independence may be impaired. BlackRock will consider voting against the re-election of directors who have been on the board for a significant period of time and there is no evidence of board renewal.

Board of effectiveness

We believe independent directors should comprise at least one-third of the board for these directors to represent an effective voice; ideally, a board should consist of a majority of independent directors. To ensure that the board remains effective, regular reviews of how it makes decisions and the information it receives should be carried out and assessments made of gaps in skills or experience amongst the members. In identifying potential candidates, boards should take into consideration the diversity of experience, expertise, and perspectives of the current directors and how that might be augmented by incoming directors. Diversity also recognizes differences relating to gender, age, ethnicity, and cultural background. Our publicly available commentary explains our approach to engaging on board diversity.

We believe that directors are in the best position to assess the composition and optimal size of the board but we would be concerned if a board seemed too small to have an appropriate balance of directors or too large to be effective.

We expect the board to establish a robust process to evaluate the performance of the board as a whole and the contributions of each director. BlackRock believes that annual performance reviews of directors and the board contribute to a more efficiently functioning board.

Nomination procedure

The company should have a formal and transparent procedure for the appointment and re-appointment of directors. The board should adopt a procedure that can ensure a diverse range of candidates to be considered. Such procedure may involve the engagement of external professional search firms.

The procedure for the nomination of directors and evaluation of the board as described above should be disclosed in the corporate governance section in the annual report. We seek information to understand how the board composition reflects the company's stated strategy, trends impacting the business, and succession expectations. Where this information is not provided, BlackRock may consider voting against re-election of members on the nomination committee.

Disclosure of director information

BlackRock expects the following information to be disclosed in the annual report and company website:

- Directors' full name and age
- Date appointed to the board (in the case of re-elections)
- Brief biography detailing the director's educational background, working experience, and any other board positions held
- Specific discussion of the skills and experience the director is expected to contribute to the board
- The company's assessment of the director's independence, including details of any current dealings with the company

Particularly when a director is seeking election / re-election, it is imperative the above information is provided to allow us to determine whether to support the appointment. Where this information is not forthcoming, BlackRock may consider voting against the election / re-election of that director.

External board mandates

As the role of director is increasingly demanding, directors must be able to commit an appropriate amount of time to board and committee matters. Given the nature of the role, it is important a director has the flexibility to cope with unforeseen events. BlackRock is especially concerned that where a full-time executive has a non-executive director role or roles at unrelated companies, there may be a risk that the ability to contribute in either role could be compromised in the event of unforeseen circumstances.

BlackRock expects companies to provide a clear explanation of the capacity to contribute in situations where a board candidate is (1) a director serving on more than six other public company boards; (2) a chairman of another listed company, or (3) an executive officer at a public company and is serving on more than two other public company boards. When looking at the number of board mandates, BlackRock will consider if the board memberships are of listed companies in the same group and / or for similar sectors.

BlackRock may vote against the election / re-election of a director where there is a risk the director may be over-committed in respect of other responsibilities and / or commitments (taking into account outside employments and / or board mandates on private companies / investment trusts / foundations). In the case of an executive officer, we would vote against his / her election only at external boards.

BlackRock may vote against the election / re-election of an outside executive as the chairman of the board as we expect the chairman to have greater time availability than other non-executive board members. We expect the company to explain why it is necessary for an external executive to lead the board of directors.

Meetings

Directors should ensure they attend all board and relevant committee meetings. BlackRock will consider voting against a director who fails to attend at least 75% of board and relevant committee meetings for the past term of being a director, unless compelling reasons for the absenteeism have been disclosed. However, BlackRock will disregard attendance in the first year following appointment as the director may have had commitments made prior to joining the board.

Committees

Appropriately structured board committees provide an efficient mechanism which allows the board to focus on key issues such as audit, board renewal, remuneration, risk, and any other issues deemed important. Board committees can also provide an important role dealing with conflicts of interests.

The audit committee should comprise only non-executive directors and a majority of independent directors, an independent chair and with at least one member having appropriate accounting or related financial background. Where the audit committee does not comprise a majority of independent directors and the chair is not independent, BlackRock will consider voting against the re-election of non-independent members of the audit committee. Further, where BlackRock believes a company has evidenced a failure of the audit committee relating to the preparation of financial statements, fraud, and general accountability to shareholders, we will consider voting against the re-election of members of the audit committee.

All committees should have written terms of reference which should, inter alia, clearly set out the committee's roles and responsibilities, composition, structure, membership requirements, and the procedures for inviting non-committee members to attend meetings. All committee terms of reference should be available to investors on the company's website. All committees should be given the power and resources to meet their obligations under the terms of reference. This will include the right of access to management and the ability to select service providers and advisors at a reasonable cost to the company.

The chairman of a committee should be independent and each committee should have a majority of independent directors. It is preferable for the chairman of the board not to chair board committees as this may lead to a concentration of power in a single director.

Risk management

BlackRock believes that the board is responsible for assessing a company's risk profile relative to its business. Companies should implement controls and processes to oversee, manage, and control the risks relevant to their business, including operating, environmental, health, and safety of the labor force, as well as other social, market, and financial risks. BlackRock expects companies to disclose how these risks are being managed in their annual report and / or website.

Accounts, statutory reports, auditors, and audit-related issues

BlackRock recognizes the critical importance of financial statements that provide a true and fair view of a company's financial condition. Consistent with our approach to voting on boards of directors, we seek to hold the audit committee of the board responsible for overseeing the management of the audit function at a company.

The integrity of financial statements depends on the external auditor being free of any impediments to be an effective check on management. To that end, we believe it is important that auditors are, and are seen to be, independent. Where the audit firm provides services to the company in addition to the audit, the fees earned should be disclosed and explained. Audit committees should also have in place a procedure for assuring annually the independence of the auditor.

Capital structure, mergers, asset sales, and other special transactions

The capital structure of a company is critical to its owners, the shareholders, as it impacts the value of their investment and the priority of their interest in the company relative to that of other equity or debt investors. Pre-emptive rights are a key protection for shareholders against the dilution of their interests.

Dual class shares

Effective voting rights are central to the rights of ownership and we believe strongly in one vote for one share as a guiding principle that supports good corporate governance. Shareholders, as the residual claimants, have the strongest interest in protecting company value, and voting power should match economic exposure.

We are concerned that the creation of a dual share class now permitted by certain Asian exchanges may result in an over-concentration of power in the hands of a few shareholders, thus disenfranchising other shareholders and amplifying the potential conflict of interest, which the one share, one vote principle is designed to mitigate. Where a company believes there is a valid argument for dual-class listing full disclosure of the rationale for the differential class structure should be disclosed. Further, such companies should review these structures on a regular basis or as company circumstances change. Additionally, they should receive shareholder approval of their share structure on a periodic basis via a management proposal at an annual general meeting. The proposal should give unaffiliated shareholders the opportunity to affirm the current structure or establish mechanisms to end or phase out controlling structures at the appropriate time, while minimizing costs to shareholders.

As always, independent directors are expected to protect the interests of all shareholders and BlackRock will potentially vote against re-election of independent directors in companies with dual class share structures if valid concerns arise relating to the economic interests of unaffiliated shareholders being compromised.

Mergers, asset sales, related-party, and other special transactions

In assessing mergers, asset sales, or other special transactions, BlackRock's primary consideration is the long-term economic interest of shareholders. Boards proposing a transaction need to clearly explain the economic and strategic rationale behind it. We will review a proposed transaction to determine the degree to which it enhances long-term shareholder value. We prefer that proposed transactions have the unanimous support of the board and have been negotiated at arm's length. We may seek reassurance from the board that executives' and / or board members' financial interests in a given transaction have not adversely affected their ability to place shareholders' interests before their own.

Related-party transactions

Due to the evolution of the various regional economies and role of the state, many Asian companies conduct transactions with connected / related parties. These can be categorized as non-recurring transactions and recurring / continuing services agreements. Where shareholders are required to vote on such transactions BlackRock expects companies to follow the associated listing rules and principles of disclosure outlined in the relevant corporate governance code. BlackRock also believes that the independent directors should ratify substantial transactions and related parties should abstain from voting. Where the above information is not disclosed or action is not taken to protect the rights of independent shareholders, BlackRock will consider voting against such proposals.

Strategy, purpose, and culture

Strategy, purpose, and culture are more nuanced than many aspects of governance. An understanding of these matters, the involvement of the board in their articulation as well as oversight in their implementation are key for long-term investors to assess the company's ability to generate value over time. BlackRock thus seeks from companies clear and insightful explanations in this area, and for transparency on these matters to become the norm in the region.

BlackRock expects companies to articulate the strategic milestones against which shareholders should assess performance, specifically, public disclosure of financial targets to be shared with all shareholders, for instance long-term return on capital or alternative criteria of value-creation. We expect companies to provide information on how the board contributes to strategy, purpose, and culture and oversees management's implementation of the agreed plans and policies.

In the absence of this information, and / or when we have concerns, we believe that engagement is preferable to voting to communicate expectations on these matters to the company. In our engagement, we will underscore the importance of a clear articulation of strategy, purpose, and culture by the board. These aspects should be well-understood both by management and staff as well as transparent to investors to be able to assess if management and the board are exercising appropriate stewardship of resources and, over time, the company is moving consistently in the direction stated.

Compensation and benefits

The key purpose of compensation is to attract, retain, and reward competent directors, executives, and other staff who are fundamental to the long term sustainable growth of shareholder value, with reward for executives contingent on controllable outcomes that add value. Each company faces different issues at different times, has different value drivers and accordingly, BlackRock believes that each company should structure their compensation policies and practices in a manner that suits its particular needs.

Whilst the level of fixed compensation is not considered to be particularly controversial in the majority of Asian companies, administration and disclosure of the structure of equity based incentive schemes can be an issue. BlackRock believes that there should be a clear link between variable pay and company performance. We are not supportive of one-off or special bonuses unrelated to company or individual performance. We support incentive plans that foster the sustainable achievement of results. The vesting time frames associated with incentive plans should facilitate a focus on long-term value creation. Compensation committees should guard against contractual arrangements that would entitle executives to material compensation for early termination of their contract. Finally, pension contributions and other deferred compensation arrangements should be reasonable in light of market practice.

BlackRock may consider voting against an options plan if it may lead to over 10% cumulative dilution over ten years inclusive of existing plans, or if a plan is not transparent in demonstrating the distribution of option awards between senior executives and other staff.

BlackRock believes that the executives should not sit on the compensation committee. The compensation committee is responsible for ensuring the transparency of compensation structures; in particular, disclosure and structure of performance based pay. Where BlackRock believes the compensation committee has failed in its role, we will consider voting against the re-election of members of the committee. If there is not a compensation committee, we will determine the most relevant directors and consider voting against their re-election.

Environmental and social risks and opportunities

As part of its investment process on behalf of its clients, BlackRock assesses a range of factors that might affect the long-term financial sustainability of the companies in which we invest, including how companies identify and manage the material environmental and social (E&S) risks or opportunities relevant to their business activities. Evolving regulations and increasingly stringent enforcement are issues Asian companies have to plan for which could significantly impact current operations as well as expansion plans; the board has to be cognizant of these risks in shaping the company's growth strategy.

BlackRock expects listed companies to disclose all material risks and opportunities relating to E&S issues and how they are managed. The framework for disclosure should include but not be limited to:

- Identification of E&S risks specific to the company
- Clear outline of board and management responsibilities on E&S issues
- Policies and processes to manage E&S risks as well as an explanation of how they are implemented and monitored
- Disclosure of key targets and indicators across the whole company
- Regular reporting on performance against policies and targets

Where BlackRock has concerns regarding the disclosure and management of E&S issues, we may consider voting against the election/re-election of directors who are ultimately responsible for such issues.

General corporate governance matters

BlackRock believes that shareholders have a right to timely and detailed information on the financial performance and viability of the companies in which they invest. In addition, companies should publish information on the governance structures in place and the rights of shareholders to influence these. The reporting and disclosure provided by companies helps shareholders assess whether their economic interests have been protected and the quality of the board's oversight of management. BlackRock believes shareholders should have the right to vote on key corporate governance matters, including on changes to governance mechanisms, to submit proposals to the shareholders' meeting, and to call special meetings of shareholders.

Amendments to articles of association

These proposals vary from routine changes to reflect regulatory change to significant changes that substantially alter the governance of the company. We will review these proposals on a case by case basis and support those proposals that we believe are in the best interests of shareholders.

Anti-takeover devices

BlackRock believes that transactions or practices that are intended to impede a potential takeover can be limiting to shareholders. BlackRock will generally not support proposals that introduce or renew anti-takeover devices.

Bundled proposals

We believe that shareholders should have the opportunity to review substantial issues individually without having to accept bundled proposals. Where several measures are grouped together, BlackRock may reject the overall proposal if it includes those that contradict or impede the rights and economic interests of shareholders.

Shareholder proposals

Whilst we recognize the importance of the right of shareholders to submit proposals to general meetings in jurisdictions where this is permitted, we will not support those that are frivolous or that cover any issues that we believe are the purview of the board or management, have been addressed adequately or where the company has disclosed that such issues will be addressed. We will support shareholder proposals that we believe enhance shareholders' rights or are in the best economic interests of long-term shareholders.

We provide summary guidelines below for the main markets in Asia that we vote on, together with more extensive standalone guidelines available on our website for China, Hong Kong, Japan, and Australia.

India

Regulatory environment

The framework for India's corporate governance practices is contained in The Companies Act, 2013 and the Companies (Amendment) Act 2017 (Companies Act), as well as the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulation 2015 and the subsequent SEBI LODR (Amendment) Regulations 2018 (LODR).

Boards and directors

Listed Indian companies have a single tiered board structure. Clause 49 requires a board to comprise not less than 50% non-executive directors. Where the chairman of the board is a non-independent director, at least one third of the board should comprise independent[1] directors; where the chairman is an executive; at least 50% of the board should comprise independent directors.

BlackRock expects proxy statements to make clear disclosure regarding the independence of directors.

[1] Independence is defined under the Companies Act, 2013 section (47). This definition is consistent with the definition used by BlackRock on page 3.

Where the structure of the board and the key board committees, without explanation, does not comply with the LODR, BlackRock will consider voting against the election of all non-independent non-executive directors.

Compensation and benefits

Non-executive directors

Under the Companies Act non-executive directors can be paid attendance fees and commission, where the maximum payable is expressed as a percentage of net profits. When a company does not make a profit shareholder approval must be obtained to pay non-executives any commission.

Indian companies often seek shareholder approval to pay commission, expressed as an amount not exceeding a percentage of the company's net profit, to non-executive directors. Such authority is valid for a period of five years. BlackRock will normally support such proposals unless compensation issues have arisen in the past.

Executive directors

The Companies Act provides limits on the amount of remuneration paid to CEO's and executive directors. Further, the Companies Act does not permit companies to pay executive directors when a company has no profits or the profits are inadequate unless consent from shareholders is received. Consent is also required if the amount paid to executives exceeds the limit set by the Companies Act.

When assessing proposals that require shareholder consent to pay executive directors above the Companies Act limit, or when a company has reported a loss, BlackRock will take into account the factors that have contributed to the performance of the company and the quantum of remuneration. BlackRock expects all listed companies to disclose the board's remuneration policy for directors and key managerial personnel as stipulated under The Companies (Amendment) Act, 2017.

Appointment of CEO and approval of remuneration package

A routine proposal for Indian annual general meetings is the appointment of executive directors for a period of up to five years and approval of their remuneration packages. Unless BlackRock has concerns regarding the past performance of the executive directors and / or the remuneration packages appear, without explanation, to be excessive such proposals are generally supported. However, BlackRock does expect to see minimum disclosure of the following:

- All elements of the remuneration package of individual directors such as salary, bonuses, stock options, and pensions
- Details of fixed component and performance linked incentives along with performance criteria
- Details of service contracts, notice period, and any severance fees
- Stock option details including details on any discounts given and the exercise period of the options

BlackRock will consider voting against an executive director's remuneration package if the executive director is a member of the remuneration committee.

Employee stock option plans

In accordance with the requirements of the SEBI, shareholder approval is required if a company seeks to issue options to employees under a stock option plan. When considering such proposals. BlackRock expects to see as minimum disclosure the following:

- Number of securities to be issued
- Recipients, including any members of the remuneration committee
- Performance measures
- Performance period
- Vesting conditions

BlackRock will consider voting against the introduction or renewal of equity based incentive plans if:

- The above information has not been disclosed
- Members of the remuneration committee are recipients of equity from the plans they administer
- The plan allows the administrators to price the grants at its discretion at the time of issuance, potentially at a significant discount to market price
- The plan may lead to over 10% cumulative dilution over ten years inclusive of existing plans, and / or if a plan is not transparent in demonstrating the distribution of option awards between senior executives and other staff

Capital structure

BlackRock believes the board is in the best position to determine the appropriate approach to capital management. When requesting shareholder approval of capital management related proposals, we take into account, inter alia, the level of disclosure and the potential dilution to existing shareholders.

Share issuances

When shareholder approval is requested for a general issuance of shares, BlackRock expects to see a cogent explanation for the proposed issue.

Debt issuance / Authority to increase borrowing limits / Pledging of assets for debt

When companies seek shareholder approval to issue debt, increase borrowing powers and / or pledge assets for debt, we expect the following information to be disclosed in the explanatory note:

- Detailed features of the debt instrument, including conversion rights
- Existing debt levels
- A clear rationale for the requested increase in debt
- The intended use of the funds and how this aligns with strategy

Where this information has not been disclosed, BlackRock will consider voting against such proposals.

Indonesia

Regulatory environment

The framework for Indonesia's corporate governance is contained in the Indonesian Company Law (Company Law), Capital Markets Law, Bapepam Rule Book issued by the Capital Market Supervisory Agency (Bapepam), the Listing Rules of the Indonesian Stock Exchange (Listing Rules), and the Indonesian Code for Good Corporate Governance (Code). Whilst the ISX Listing Rules related to corporate governance are mandatory, compliance to the Code is voluntary. BlackRock expects Indonesian companies to comply with the Code, or alternatively provide a cogent explanation for non-compliance.

Boards and directors

Indonesian companies generally have a two-tiered board system comprising a board of directors and a board of commissioners. A commissioner cannot serve concurrently as a director, manager, or employee of the company.

The role of the board of commissioners is to supervise the board of directors, ensure the company fulfills all its legal obligations, and protects the interests of shareholders. The ISX Listing Rules requires 30% of the board commissioners to be independent. It also requires at least one unaffiliated director on the board of directors.

Where the structure of the company's board of directors and / or board of commissioners does not meet the requirements of the Listing Rules, BlackRock will consider voting against the re-election of non-independent directors and / or commissioners.

Disclosure remains a concern in Indonesia with names and biographies of director nominees often not disclosed in advance of the meeting. BlackRock expects companies to disclose full details of directors and commissioners and identify directors and commissioners who are independent. Where companies have not disclosed information on directors and commissioners, BlackRock will consider voting against their election / re-election.

It is also common for director elections to be voted on as a bundled proposal. Where the directors and commissioners are elected by slate, BlackRock will consider voting against the entire slate if less than 30% of commissioners are independent.

Director compensation

Indonesian companies routinely seek shareholder approval to fix the fees of directors and commissioners. When assessing such proposals, BlackRock expects full disclosure of salaries and any limit which may apply. Where this information has not been provided, BlackRock will consider voting against such proposals.

Malaysia

Regulatory environment

The framework for Malaysia's corporate governance is contained in the Companies Act 2016, the Capital Market Services Act, the Bursa Malaysia Securities Berhad Listing Requirements (Listing Requirements), and the 2017 Malaysian Code on Corporate Governance (Code). The Code follows an apply-or-explain-an-alternative approach, dubbed by the Securities Commission Malaysia as "Comprehend, Apply, and Report (CARE)."

Boards and directors

Listed Malaysian companies have a single tiered board structure. The Code requires all listed companies to have at least half of the board comprised of independent directors, while large companies[2] must have a majority independent board.

Where the structure of the board including the key board committees does not meet the requirements set forth under the Code and a cogent explanation has not been provided, BlackRock will consider voting against the election / re-election of non-independent directors.

Independent directors

The Code requires that boards introduce a policy which limits the cumulative term of independent directors to nine years, beyond which the director may serve as a non-independent (non-executive) director. Should the board intend to retain the independent director beyond nine years, it must provide justification and seek an annual shareholders' approval until the twelfth year. Beyond the twelfth year, the board must seek annual shareholders' approval under a two-tier voting process.

BlackRock will consider voting against the re-election of a long-tenured independent director beyond his / her nine-year term unless a cogent explanation is provided by the board, justifying the retention of the director.

Capital structure

BlackRock believes the board is in the best position to determine the appropriate approach to capital management. When requesting shareholder approval of capital management related proposals, we take into account, inter alia, the level of disclosure and the potential dilution to existing shareholders.

Related-party transactions

Under the Listing Requirements, companies may seek a general mandate from shareholders to enter into related-party transactions that could be necessary for the company's day-to-day operations. While BlackRock will assess related-party transactions on a case-by-case basis, we expect such transactions to be carried out on normal commercial terms and conditions. In respect of proposals relating to related-party transactions we expect, as a minimum, disclosure of the following:

[2] Large companies are defined by the SC as (i) companies on the FTSE Bursa Malaysia Top 100 index; or (ii) companies with market capitalization of RM 2 billion and above.

- Full discourse of the nature of the transaction, including details of the related parties involved
- The pricing terms
- Any annual limits for an on-going mandate

Philippines

Regulatory environment

The framework for Philippine's corporate governance is contained in the Corporation Code of the Philippines (Corporation Code), the Securities Regulation Code (SRC), the Philippines Stock Exchange Listing Rules and the 2017 Philippine Code of Corporate Governance (Code), a combination of mandatory and voluntary code issued by the Securities and Exchange Commission (SEC), the Corporate Governance Guidelines for Companies Listed on the Philippine Stock Exchange (CG Guidelines), and the Philippines Guidelines on Nomination and Election of Independent Directors (Guidelines). The Code follows a comply-or-explain approach, and the rules of the Code are required to be embodied in a manual that can be used as a reference by members of the board and management. Companies are required to submit their manual to the SEC; the manual shall be made available for inspection by any shareholders.

Boards and directors

Listed Philippine companies have a single-tiered board structure. The revised Code requires public company boards to have the greater of at least three independent directors or at least one-third independent directors[3] on the board. The Code also recommends the separation of the chairman and CEO roles.

Where the structure of a board does not meet the requirements of the Code, and a cogent explanation has not been provided, BlackRock will consider voting against the re-election of non-independent directors.

Ratification of previous corporate acts

This is a routine request by Philippine companies. Shareholders are asked to ratify the acts and resolutions referred to in the proposal that have been done in the ordinary course of the business of the company. In general, BlackRock is supportive of such proposals, unless there is a specific reason to vote against.

Singapore

Regulatory environment

The framework for Singapore's corporate governance is contained in the Code of Corporate Governance (Code), the Companies Act (Act), the Listing Manual of the Singapore Stock Exchange (SGX), and the Code on Takeovers and Mergers. The MAS and the SGX jointly oversee the Code of Corporate Governance, which follows a comply-or-explain approach.

[3] Independence is defined under the Philippine Code of Corporate Governance, Article 1 (e). This definition is consistent with the definition used by BlackRock on page 3.

In Singapore, disclosure of relevant information is robust relative to other markets in the region and there are few impediments to proxy voting.

Boards and directors

Listed Singaporean companies have a single-tiered board structure. Under the Listing Manual, at least one-third of directors should be independent.[4] The provisions of the Code amended in 2018 requires non-executive directors to make up a majority of the board. Where the chairman is not independent, independent directors are to make up a majority of the board. Acknowledging that the requirements of the amended Code will not be fully phased in until 2022, BlackRock will consider voting against the election / re-election of all non-independent directors should the structure of the board, including the key board committees, not meet the requirements of the Code applicable at the time of the shareholder meeting, absent a cogent explanation.

Capital structure

BlackRock believes the board is in the best position to determine the appropriate approach to capital management. When requesting shareholder approval of capital management related proposals, we take into account, inter alia, the level of disclosure and the potential dilution to existing shareholders.

Share issuances

Under the SGX Listing Manual, shareholder approval is required for the board to issue shares and convertible securities. The SGX Listing Manual provides limits with respect to issuances as follows:

- The aggregate number of shares to be issued other than by way of renounceable rights issues does not exceed 50% of the issued shares in the capital of the company
- Of the 50% limit, the number of shares to be issued, other than on a pro rata basis to shareholders, does not exceed 20% of the issued shares in the capital of the company

For proposals relating to issuances without pre-emptive rights, BlackRock expects to see as a minimum disclosure of the following:

- Recipients of the proposed equity issue
- Details of any discounts to be offered and the rationale behind any proposed discount
- The basis of determining the issue price
- How the funds raised will be used
- Impact, if any on change of control
- Conversion rates on equity (if applicable)

Unless a cogent explanation is provided, BlackRock will consider voting against proposals where the aggregate number of shares and / or convertible securities issued by way of a renounceable rights issue to shareholders exceeds 50% of the company's outstanding shares.

BlackRock will also consider voting against proposals relating to issuances involving pre-emptive rights where the above disclosures have not been made and / or the aggregate number of shares and / or

[4] Independence is defined under the Singapore Code of Corporate Governance, Principle 2.1. This definition is consistent with the definition used by BlackRock on page 3.

convertible securities issued without pre-emptive rights exceeds 10% of the company's outstanding shares. Further, BlackRock will consider voting against such proposals where, without explanation, the issuance is at a discount exceeding 10%.

Compensation and benefits

Best practice encourages companies to implement incentive schemes with robust performance criteria and vesting periods, minimal dilution, and effective and independent administration.

The Listing Manual requires shareholder approval of share option schemes and share schemes. When assessing stock option and share plans BlackRock expects to see, at a minimum, disclosure of the following:

- Proposed participants in the scheme
- The maximum number of shares or options that can be issued under the scheme. A cogent explanation where the maximum number of shares or options exceeds 5% of issued capital for a mature company and 10% for an early phase/development company
- Any material conditions relating to the vesting of the options or shares
- Any discounts to the issue price and rationale for such discounts
- The scheme should not allow for re-pricing of options

Where, without explanation, the above disclosures have not been made or BlackRock considers other features of the scheme are not in the best interests of shareholders, we will consider voting against such schemes.

Where a company has an option or share scheme, shareholder approval is required for participation of controlling shareholders and their associates. Further, any grant of options to a director or employee of the issuer's parent company and its subsidiaries that, together with options already granted to the person under the scheme, represents 5% or more of the total number of options available to such directors and employees, must be approved by independent shareholders. A separate resolution must be passed for each such person and to approve the aggregate number of options to be made available for grant to all directors and employees of the parent company and its subsidiaries.

When assessing equity grants to directors or employees, BlackRock expects full disclosure of the key features of the scheme under which the options or shares are to be issued. Where this information has not been disclosed, BlackRock will consider voting against such proposals.

Related-party transactions

The Listing Manual requires shareholder approval of related-party[5] transactions. Singaporean companies can seek shareholder approval for a single related-party transaction or a general mandate for recurrent transactions of a revenue or trading nature or those necessary for the company's day-to-day operations such as the purchase of supplies and materials, but not in respect of the purchase or sale of assets,

[5] Mainboard Rule 904 (4) defines an "interested person" as (i) a director, CEO, or controlling shareholder of the issuer (ii) an associate of any such director, chief executive or controlling shareholder.

undertakings or businesses. Where a general mandate is requested, such transactions must be carried out on normal commercial terms and conditions, and be reviewed by the audit committee.

While BlackRock will assess related-party transactions on a case-by-case basis, we expect such transactions to be carried out on normal commercial terms and conditions. In respect of related party transactions we expect, at a minimum, disclosure of the following:

- Full discourse of the nature of the transaction, including details of the related parties involved
- The pricing terms
- Any annual limits for an on-going mandate

South Korea

Regulatory environment

The framework for South Korea's corporate governance is centered upon the Commercial Act, the Capital markets and Financial Investment Business Act, and the Stock Market Listing Regulations (Listing Regulations). Korea Corporate Governance Service (KCGS) has also released the Code of Best Practices for Corporate Governance (Code), which follows a comply-or-explain approach.

The Commercial Act imposes two sets of corporate governance standards on listed companies – one for those with assets larger than KRW 2 trillion (Large Companies) and those with assets between KRW 2 trillion and KRW 100 billion (Small Companies).

Boards and directors

Pursuant to the Commercial Act, listed companies are required to have a single-tiered board structure. While Large Companies are required to have an audit committee and outside director nomination committee, Small Companies are exempt from this requirement, and instead allowed to have a statutory auditor.

The Commercial Act requires outside directors[6] to make up a majority of the board at Large Companies, and at least one-fourth for Small Companies.

The Code recommends for Large Companies the chairman not be a representative of management. Where this recommendation has not been met the Code states that it is desirable to elect a lead outside director to act as a representative for the other outside directors.

Where the structure of a board does not meet the requirements of the Code and a cogent explanation has not been provided, BlackRock will consider voting against the re-election of all non-outside directors.

Statutory auditor and audit committee

The position of statutory auditor is quite specific to South Korea. Small Companies are required under the Commercial Act to appoint one or more statutory auditors. The function of the statutory auditor is similar to that of the audit committee. Key features of the role are to supervise and ensure the directors discharge their duties as well as oversee the financial reporting of the company. Instead of a statutory auditor, a Small Company may choose to establish an audit committee. Under the Commercial Act, an

[6] The definition of Outside Director as per the Korean Code of Best Practices for Corporate Governance, Section 4, is consistent with the definition used by BlackRock on page 3.

audit committee must be comprised of at least three directors, of which at least two must be outside directors. The audit committee must have at least one director with relevant financial background.

BlackRock expects all statutory auditors to be independent and at least one should have an auditing or relevant financial background. Where this is not the case, or we have concerns regarding past actions of statutory auditors, BlackRock will consider voting against their re-election.

Compensation and benefits

Outside directors

Korean law requires shareholders to approve a cap on total cash fees paid to directors. When directors seek to increase the fee cap, shareholder approval must be sought. BlackRock considers requests for an increase in the fee cap on a case-by-case basis. We expect the explanatory notes to the meeting to clearly explain why the increase is being sought.

Outside directors should not receive performance-based remuneration as to do so would more closely align their interests with those of management, whose performance and remuneration they are intended to monitor on behalf of shareholders.

Outside directors should not receive any form of service-contingent retirement benefit. Such remuneration merely rewards a non-executive director for long service and may inhibit a non-executive director from resigning from the board if an issue of conflict or any other issue that would impair a director's independence arises. BlackRock will consider voting against proposals to grant performance-based remuneration or retirement benefits to outside directors.

Taiwan

Regulatory environment and policy direction

The framework for Taiwan's corporate governance is centered upon The Company Act (the Act), the Securities and Exchange Act (the SEA), Taiwan Stock Exchange Corporation rules Governing Review of Securities Listings, and the Taipei Exchange Rules Governing the Review of Securities for Trading on the TPEx (Listing Rules).

The Corporate Governance Best Practice Principles for TWSE/TPEx Listed Companies (the Principles) published in 2002 first set out market aspirations on key governance issues such as protection of shareholder rights, corporate boards and their fiduciary duties, and transparency. Since 2013, the Financial Supervisory Commission (FSC) has stepped up its efforts on corporate governance reform by establishing the Center for Corporate Governance under the Taiwan Stock Exchange and publishing two Corporate Governance Roadmaps with specific governance improvement objectives for two periods covering 2014 to 2016 and 2018 to 2020, respectively. The roadmap proposed for 2018 to 2020 includes action plans to strengthen board functions, enhance transparency, and encourage participation of external shareholders in corporate governance.

Boards and directors

Corporate governance in Taiwan started with a two-tiered board structure comprising a board of directors and a board of supervisors. The role of supervisory board is to provide oversight of management and financial reporting. Regulators have since changed stance and decided to opt for a single-tiered board structure. Over the past decade, companies have been asked to adopt audit committees to replace supervisors with the FSC announcing a draft plan to have all listed-companies to establish an audit committee by 2022. Since the SEA allows companies only to establish either an audit committee or a board of supervisors, Taiwan will in effect phase out the two-tiered system and transition to a one-tiered board structure by 2022.

Currently, all listed-companies in Taiwan must have at least two independent directors who represent no less than one-fifth of board. As the audit committee must consist of no less than three members with all members being independent directors and at least one with auditing or financial background, all listed-companies should have at least three independent directors by 2022.

Non-compete restriction

Article 209 of the Act states that "a director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval." This means that shareholder approval is required to release directors from this restriction. Approval of such proposals allows company directors to serve on the boards of other companies and conduct activities which may be considered to compete with the business affairs of the company.

When assessing such proposals BlackRock expects, as a minimum, disclosure of the following:

- Name of the other companies that the director intends to serve as a director
- Full details of the businesses in which these other companies operate

Where we believe that there is no potential conflict of interest if the director serves on the other identified boards, BlackRock will generally support such proposals. Where, however, the above information has not been disclosed or we are concerned that there is potential conflict, BlackRock may consider voting against such proposals.

Legal entity directors

The Act allows legal entities (including government agency and juristic person) to be elected as a director through a natural person as its proxy. The legal entity director may switch the designated natural person proxy without shareholder approval, effectively removing the right of shareholders to elect directors. BlackRock strongly opposes the practice of legal entity directors and urges companies to refrain from utilizing such a structure.

Thailand

Regulatory environment

The framework for Thailand’s corporate governance is centered upon the Public Limited Companies Act (PLCA), the Securities and Exchange Commission (SEC), the Stock Exchange of Thailand (SET), the SEC’s Corporate Governance Code 2017 (Code), and SET’s Principles of Good Corporate Governance (Principles). The Code takes an “apply or explain” approach, whereas the Principles follow a “comply or explain” approach.

Boards and directors

Thai companies have a single-tiered board structure. The SEC regulation requires that there be a minimum of three independent directors or at least one-third of the board (whichever is higher) be independent. The Principles take the independence of the chairman into consideration, requiring at least one-third of the board to be made up of independent directors in the case that the chairman is independent, but at least one-half of the board to be made up of independent directors in the case that (i) the chairman and the CEO are the same person; (ii) the chairman and the CEO are immediate family members; (iii) the chairman is part of the management team; or (iv) the chairman is not an independent director.

Where a board does not, without explanation, meet the independence requirements of the Principles, BlackRock will consider voting against the election / re-election of non-independent directors.