

# **BlackRock Investment Stewardship**

Proxy voting guidelines for Asia ex Japan, Hong Kong, and Chinese securities

Effective as of January 2024

# Contents

|  |           |
|--|-----------|
| <b>Executive Summary</b> .....   | <b>3</b>  |
| <b>Boards and directors</b> .....  | <b>5</b>  |
| <b>Accounts, statutory reports, auditors, and audit-related issues</b> .....         | <b>10</b> |
| <b>Capital structure, mergers, asset sales, and other special transactions</b> ..... | <b>10</b> |
| <b>Compensation and benefits</b> .....   | <b>11</b> |
| <b>Material sustainability-related risks and opportunities</b> .....                 | <b>12</b> |
| <b>Shareholder proposals</b> .....   | <b>15</b> |
| <b>Other corporate governance matters</b> .....                                      | <b>16</b> |
| <b>Voting Choice</b> .....   | <b>16</b> |
| <b>India</b> .....   | <b>17</b> |
| <b>Indonesia</b> .....   | <b>19</b> |
| <b>Malaysia</b> .....  | <b>20</b> |
| <b>Philippines</b> .....   | <b>21</b> |
| <b>Singapore</b> .....   | <b>22</b> |
| <b>South Korea</b> .....   | <b>25</b> |
| <b>Taiwan</b> .....  | <b>26</b> |
| <b>Thailand</b> .....  | <b>28</b> |

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

## Executive Summary

As part of our fiduciary duty to our clients, we consider it one of our responsibilities to promote sound corporate governance as an informed, engaged shareholder on their behalf. At BlackRock, this is the responsibility of the BlackRock Investment Stewardship (BIS) team.

In our experience, sound governance is critical to the success of a company, the protection of investors' interests, and long-term financial value creation. We have also observed that well-managed companies will effectively evaluate and address risks and opportunities relevant to their businesses, which supports durable, long-term financial value creation. As one of many minority shareholders, BlackRock cannot – and does not try to – direct a company's strategy or its implementation. Rather, we take a constructive, long-term approach with companies and seek to understand how they are managing the drivers of risk and financial value creation in their business models.

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, Hong Kong and China 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 provided 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.

### Shareholder rights

We believe that there are certain fundamental rights attached to shareholding. Shareholders should have the right to:

- Elect, remove, and nominate directors, approve the appointment of the auditor, and amend the corporate charter or by-laws.
- Vote on key board decisions that are material to the protection of their investment, including but not limited to, changes to the purpose of the business, dilution levels and pre-emptive rights, and the distribution of income and capital structure.

- Access sufficient and timely information on material governance, strategic, and business matters to make informed decisions

In our view, shareholder voting rights should be proportionate to economic ownership—the principle of “one share, one vote” helps to achieve this balance.

Consistent with these shareholder rights, BlackRock monitors and provides feedback to companies in our role as stewards of our clients’ assets. Investment stewardship is how we use our voice as an investor to promote sound corporate governance and business practices that support the ability of companies to deliver long-term financial performance for our clients. We do this through engagement with companies, proxy voting on behalf of those clients who have given us authority, and participating in market-level dialogue to improve corporate governance standards.

Engagement is an important mechanism for providing feedback on company practices and disclosures, particularly where we believe they could be enhanced to support a company’s ability to deliver financial performance. Similarly, it provides us with an opportunity to hear directly from company boards and management on how they believe their actions are aligned with the long-term economic interests of shareholders. Engagement with companies may also inform our proxy voting decisions.

As a fiduciary, we vote in the long-term economic interests of our clients. Generally, we support the recommendations of the board of directors and management. However, there may be instances where we vote against the re-election of directors or other management proposals, or support shareholder proposals. For instance, we may vote against management recommendations where we are concerned that the board may not be acting in the long-term economic interests of shareholders, or disclosures do not provide sufficient information to assess how material, strategic risks and opportunities have been managed.

## Key themes

The universe we cover in Asia ex Japan, Hong Kong and China includes but is not limited to Bangladesh, 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 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.

These guidelines are divided into eight key themes as follows:

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

- Capital structure, mergers, asset sales, and other special transactions
- Compensation and benefits
- Material sustainability-related risks and opportunities
- Shareholder proposals
- Other corporate governance matters
- Voting Choice

## **Boards and directors**

The board should establish and maintain a framework of robust and effective governance mechanisms to support its oversight of the company's strategy and operations consistent with the long-term economic interests of investors. There should be clear descriptions of the role of the board and the committees of the board and how directors engage with and oversee management. We look to the board to articulate the effectiveness of these mechanisms in overseeing the management of business risks and opportunities and the fulfillment of the company's purpose and strategy.

Where a company has not adequately disclosed and demonstrated that its board has fulfilled these corporate governance and risk oversight responsibilities, we will consider voting against the re-election of directors who, on our assessment, have particular responsibility for the issues. We assess director performance on a case-by-case basis and in light of each company's circumstances, taking into consideration our assessment of their governance, business practices that support durable, long-term value creation, and performance. Set out below are ways in which boards and directors can demonstrate a commitment to acting in the long-term economic interests of all shareholders.

### **Regular accountability**

It is our view that directors should stand for election on a regular basis, ideally annually. In our experience, annual director elections allow shareholders to reaffirm their support for board members and/or hold them accountable for their decisions in a timely manner. When board members are not elected annually, in our experience, it is good practice for boards to have a rotation policy to ensure that, through a board cycle, all directors have had their appointment re-confirmed, with a proportion of directors being put forward for election at each annual general meeting.

### **Effective board composition**

Regular director elections also give boards the opportunity to adjust their composition in an orderly way to reflect developments in the company's strategy and the market environment. In our view, it is beneficial for new directors to be brought onto the board periodically to refresh the group's thinking while supporting both continuity and appropriate succession planning. We consider the average overall tenure of the board, and seek a balance between the knowledge and experience of longer-serving directors and the fresh perspectives of directors who joined more recently.

We encourage companies to keep under regular review the effectiveness of their board (including its size), and assess directors nominated for election in the context of the composition of the board as a whole. This assessment should consider a number of factors, including each director's independence and time commitments, as well as the diversity and relevance of director experiences and skillsets, and how these factors may contribute to the performance of the company.

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.

## **Board independence**

In our view, there should be a sufficient number of independent directors, free from conflicts of interest or undue influence from connected parties, to ensure objectivity in the decision-making of the board and its ability to oversee management. Common impediments to independence may include but are not limited to:

- Current or recent employment at the company or a subsidiary
- Being, or representing, a shareholder with a substantial shareholding in the company
- Having any other interest, business, or other relationship which could, or could reasonably be perceived to, materially interfere with a director's ability to act in the best interests of the company and shareholders
- An immediate family member of any of the aforementioned
- Interlocking directorships

## **Conflicts of interest**

BlackRock believes that all independent directors should be free from conflicts of interest. Independent directors, their immediate family or their affiliated companies, who or which engage in material transactions with a company, could be placed in a position where they 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.

## **Independent board leadership**

In our experience, boards are most effective at overseeing and advising management when there is a senior, independent board leader. This director may chair the board, or, where the chair is also the CEO (or is otherwise not independent), be designated as a lead independent director. The role of this director is to enhance the effectiveness of the independent members of the board through shaping the agenda, ensuring adequate information is provided to the board, and encouraging independent director participation in board deliberations. The lead independent director or another appropriate director should be available to meet with shareholders in those situations where an independent director is best placed to explain and contextualize a company's approach.

## **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 independent directors do not serve for such lengths of time that their independence may be

impaired. BlackRock may consider voting against the re-election of directors who have been on the board for a significant period of time especially if there is no evidence of board renewal.

We believe independent directors who have been on the board for 12 years or longer should generally be reclassified as non-independent directors. Where the level of independence on the board or at committee levels is insufficient, taking such reclassifications into consideration, we may vote against directors for failing to ensure sufficient board and/or committee independence.

## Diversity

We see diversity as a means to promoting diversity of thought and avoiding ‘group think’ in the board’s exercise of their responsibilities to advise and oversee management. It allows boards to have deeper discussions and make more resilient decisions. We 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. We encourage boards to aspire to meaningful diversity of membership, while recognizing that building a strong, diverse board can take time.

Significant progress has been made in recent years towards advancing gender diversity in the boardroom, following voluntary initiatives and mandatory quotas in markets such as Singapore<sup>1</sup>, Malaysia<sup>2</sup> and South Korea<sup>3</sup>.

We generally would not consider single gender boards as diverse boards, and we expect all listed companies in Singapore and Malaysia, India, as well as large companies in South Korea<sup>4</sup> and Taiwan<sup>5</sup>, to have at least one female board director. In the absence of such, we may vote against the re-election of director(s) deemed responsible for the lack of female representation on such boards.

## 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.

When nominating new directors to the board, we look to companies to provide sufficient information on the individual candidates so that shareholders can assess the suitability of each individual nominee and the overall board composition. These disclosures should give an understanding of how the collective experience and expertise of the board aligns with the company’s long-term strategy and business model. Highly qualified, engaged directors with professional characteristics relevant to a company’s business enhance the ability of the board to add value and be the voice of shareholders in board discussions. In our view, a strong board provides a competitive advantage to a company, providing valuable oversight and contributing to the most important management decisions that support long-term financial performance.

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, we may consider voting against re-election of members on the nomination committee.

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<sup>1</sup> [Singapore Council for Board Diversity; SGX Consultation Paper on Climate and Diversity.](#)

<sup>2</sup> [Malaysian Code on Corporate Governance.](#)

<sup>3</sup> [South Korea’s Financial Investment Services and Capital Markets Act.](#)

<sup>4</sup> Large companies in South Korea are defined as those with KRW 2 trillion (USD 2 billion) or more in assets.

<sup>5</sup> Large companies in Taiwan are defined as constituents in MSCI Taiwan index.

## Cumulative voting

Majority vote standard is the norm for director elections in most jurisdictions in Asia, ensuring director accountability through the requirement to be elected by more than half of the votes cast. Nonetheless we are cognizant that in some jurisdictions in Asia, cumulative voting is instituted as a default practice, aimed at protecting the interest of minority investors in light of the prevalence of controlling shareholders. In such jurisdictions, we will generally support cumulative voting proposals as long as the spirit of the proposal is aligned with protecting the interest of minority shareholders.

## Disclosure of director information

BlackRock expects the following information to be disclosed in the annual report and company website, and the meeting circular when a director is seeking election/re-election:

- 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.

## Sufficient capacity

As the role and expectations of a director are increasingly demanding, directors must be able to commit an appropriate amount of time to board and committee matters. It is important that directors have the capacity to meet all of their responsibilities - including when there are unforeseen events - and therefore, they should not take on an excessive number of roles that would impair their ability to fulfill their duties.

BlackRock expects companies to provide a clear explanation of the capacity to contribute in situations where a board candidate is a director serving on more than six 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, and whether executive officers, including an executive chairman, may or may not be able to exercise the responsibilities of a director on as many non-related company boards as non-executives.

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.

## Meeting attendance

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 oversight

Companies should have an established process for identifying, monitoring, and managing key risks. Independent directors should have ready access to relevant management information and outside advice, as appropriate, to ensure they can properly oversee risk management. We encourage companies to provide transparency around risk measurement, mitigation, and reporting to the board. We are particularly interested in understanding how risk oversight processes evolve in response to changes in corporate strategy and / or shifts in the business and related risk environment. Comprehensive disclosure provides investors with a sense of the company's long-term operational risk management practices and, more broadly, the quality of the board's oversight. In the absence of robust disclosures, we may reasonably conclude that companies are not adequately managing risk.

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

BlackRock recognizes the critical importance of financial statements, which should provide a true and fair picture of a company's financial condition. Accordingly, the assumptions made by management and reviewed by the auditor in preparing the financial statements should be reasonable and justified.

Audit committees or equivalent play a vital role in a company's financial reporting system. We hold the members of the audit committee or equivalent responsible for overseeing the management of the audit function. Audit committees or equivalent should have clearly articulated charters that set out the committee's responsibilities and have a rotation plan in place that allows for a periodic refreshment of the committee memberships. We recognize that audit committees will rely on management, internal audit and the independent auditor in fulfilling their responsibilities but look to committee members to demonstrate they have relevant expertise to monitor and oversee the audit process and related activities.

We take particular note of unexplained changes in reporting methodology, cases involving significant financial restatements or ad hoc notifications of material financial weakness. In this respect, audit committees should provide timely disclosure on the remediation of Key and Critical Audit Matters identified either by the external auditor or internal audit function.

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

Comprehensive disclosure provides investors with a sense of the company's long-term operational risk management practices and, more broadly, the quality of the board's oversight. The audit or risk committee should periodically review the company's risk assessment and risk management policies and significant risks and exposures identified by management, the internal auditors or the independent auditors, and management's steps to address them. In the absence of detailed disclosures, we may reasonably conclude that companies are not adequately managing risk.

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

The capital structure of a company is critical to 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 basic rights of share ownership and a core principle of effective governance. Shareholders, as the residual claimants, have the strongest interest in protecting company value, and voting rights should match economic exposure, i.e., one share, one vote.

In principle, we disagree with the creation of a share class with equivalent economic exposure and preferential, differentiated voting rights. In our view, this structure violates the fundamental corporate governance principle of proportionality, and results in a concentration of power in the hands of a few shareholders, thus disenfranchising other shareholders and amplifying any potential conflicts of interest.

However, we recognize that in certain markets, at least for a period of time, companies may have a valid argument for listing dual classes of shares with differentiated voting rights. In our view, such companies should review these share class structures on a regular basis or as company circumstances change. Additionally, they should seek shareholder approval of their capital structure on a periodic basis via a management proposal at the company's shareholder 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, and other special transactions**

In assessing mergers, asset sales, or other special transactions, BlackRock's primary consideration is the long-term economic interests of our clients as shareholders. Boards proposing a transaction should clearly explain the economic and strategic rationale behind it. We will review a proposed transaction to determine the degree to which it can enhance long-term shareholder value. We find long-term investors like our clients typically benefit 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 the financial interests of executives and/or board members 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. For non-recurring transactions between related parties, the recommendation to support should come from the independent directors, and ideally, the terms should have been assessed through an independent appraisal process. In addition, it is good practice that it be approved by a separate vote of the non-conflicted shareholders.

## **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.

One of the most important roles for a company's board of directors is to put in place a compensation structure that incentivizes and rewards executives appropriately. 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. BIS does not have a position on the use of sustainability-related criteria in compensation structures, but in our view, where companies choose to include these components, they should be adequately disclosed, material to the company's

strategy, and as rigorous as other financial or operational targets. Long-term incentive plans should encompass timeframes that 1) are distinct from annual executive compensation structures and metrics, and 2) encourage the delivery of strong financial results over a period of years. Compensation committee should guard against contractual arrangements that would entitle executives to material compensation for early termination of their employment. Also, pension contributions and other deferred compensation arrangements should be reasonable in light of market practice.

We are not supportive of one-off or special bonuses unrelated to company or individual performance. Where discretion has been used by the compensation committee or its equivalent, we expect disclosure relating to how and why the discretion was used, and how the adjusted outcome is aligned with the interests of shareholders. We acknowledge that the use of peer group evaluation by compensation committees can help ensure competitive pay; however, we are concerned when the rationale for increases in total compensation at a company is solely based on peer benchmarking rather than a rigorous measure of outperformance. We encourage companies to clearly explain how compensation outcomes have rewarded performance.

We encourage boards to consider building clawback provisions into incentive plans such that companies could clawback compensation or require executives to forgo awards when compensation was based on faulty financial statements or deceptive business practices. We also favor recoupment from or the foregoing of the grant of any awards by any senior executive whose behavior caused material financial harm to shareholders, material reputational risk to the company, or resulted in a criminal investigation, even if such actions did not ultimately result in a material restatement of past results.

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. Generally, we believe independent directors should not be eligible for equity-based incentives and executives should not sit on the compensation committee. In addition, if a share-based incentive plan could potentially 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 share-based awards between senior executives and other staff, we may consider voting against such proposals.

We use third party research, in addition to our own analysis, to evaluate existing and proposed compensation structures. We may vote against members of the compensation committee or equivalent board members for poor compensation practices or structures.

## **Material sustainability-related risks and opportunities**

It is our view that well-managed companies will effectively evaluate and manage material sustainability-related risks and opportunities relevant to their businesses. As with all risks and opportunities in a company's business model, appropriate oversight of material sustainability considerations is a core component of having an effective governance framework, which supports durable, long-term financial value creation.

Robust disclosure is essential for investors to effectively evaluate companies' strategy and business practices related to material sustainability-related risks and opportunities. Long-term investors like our clients can benefit when companies demonstrate that they have a resilient business model through disclosures that cover governance, strategy, risk management, and metrics and targets, including industry-specific metrics. The International Sustainability Standards Board (ISSB) standards, IFRS S1 and

S2,<sup>6</sup> provide companies with a useful guide to preparing this disclosure. The standards build on the Task Force on Climate-related Financial Disclosures (TCFD) framework and the standards and metrics developed by the Sustainability Accounting Standards Board (SASB), which have converged under the ISSB. We recognize that companies may phase in reporting aligned with the ISSB standards over several years. We also recognize that some companies may report using different standards, which may be required by regulation, or one of a number of voluntary standards. In such cases, we ask that companies highlight the metrics that are industry- or company-specific.

We note that climate and other sustainability-related disclosures often require companies to collect and aggregate data from various internal and external sources. We recognize that the practical realities of data collection and reporting may not line up with financial reporting cycles and companies may require additional time after their fiscal year-end to accurately collect, analyze, and report this data to investors. That said, to give investors time to assess the data, we encourage companies to produce climate and other sustainability-related disclosures sufficiently in advance of their annual meeting, to the best of their abilities.

Companies may also choose to adopt or refer to guidance on sustainable and responsible business conduct issued by supranational organizations such as the United Nations or the Organization for Economic Cooperation and Development. Further, industry initiatives on managing specific operational risks may provide useful guidance to companies on best practices and disclosures. We find it helpful to our understanding of investment risk when companies disclose any relevant global climate and other sustainability-related standards adopted, the industry initiatives in which they participate, any peer group benchmarking undertaken, and any assurance processes to help investors understand their approach to sustainable and responsible business practices. We will express any concerns through our voting where a company's actions or disclosures do not seem adequate in light of the materiality of the business risks.

## **Climate and nature-related risk**

While companies in various sectors and geographies may be affected differently by climate-related risks and opportunities, the low-carbon transition is an investment factor that can be material for many companies and economies around the globe.

We seek to understand, from company disclosures and engagement, the strategies companies have in place to manage material risks to, and opportunities for, their long-term business model associated with a range of climate-related scenarios, including a scenario in which global warming is limited to well below 2°C, considering global ambitions to achieve a limit of 1.5°C. As one of many shareholders, and typically a minority one, BlackRock does not tell companies what to do. It is the role of the board and management to set and implement a company's long-term strategy to deliver long-term financial returns.

Our research shows that the low-carbon transition is a structural shift in the global economy that will be shaped by changes in government policies, technology, and consumer preferences, which may be material for many companies.<sup>7</sup> Yet the path to a low-carbon economy is deeply uncertain and uneven, with different parts of the economy moving at different speeds. BIS recognizes that it can be challenging for companies to predict the impact of climate-related risk and opportunity on their businesses and

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<sup>6</sup> The objective of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. The objective of IFRS S2 Climate-related Disclosures is to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

<sup>7</sup> BlackRock Investment Institute, "Tracking the low-carbon transition", July 2023.

operating environments. Many companies are assessing how to navigate the low-carbon transition while delivering long-term value to investors. In this context, we encourage companies to publicly disclose, consistent with their business model and sector, how they intend to deliver long-term financial performance through the transition to a low-carbon economy. Where available, we appreciate companies publishing their transition plan.<sup>8</sup>

Consistent with the ISSB standards, we are better able to assess preparedness for the low-carbon transition when companies disclose short-, medium- and long-term targets, ideally science-based 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 financial interests of their investors.

While we recognize that regulators in some markets are moving to mandate certain disclosures, at this stage, we 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. We welcome disclosures and commitments companies choose to make regarding scope 3 emissions and recognize these are provided on a good-faith basis as methodology develops. Our publicly available [commentary](#) provides more information on our approach to climate-related risks and opportunities.

In addition to climate-related risks and opportunities, the management of nature-related factors is increasingly a component of some companies' ability to generate durable, long-term financial returns for shareholders, particularly where a company's strategy is heavily reliant on the availability of natural capital, or whose supply chains are exposed to locations with nature-related risks. We look for such companies to disclose how they manage any reliance and impact on, as well as use of, natural capital, including appropriate risk oversight and relevant metrics and targets, to understand how these factors are integrated into strategy. We will evaluate these disclosures to inform our view of how a company is managing material nature-related risks and opportunities, as well as in our assessment of relevant shareholder proposals. Our publicly available [commentary](#) provides more information on our approach to natural capital.<sup>9</sup>

## Key stakeholder interests

In order to advance long-term shareholders' interests, companies should consider the interests of the various parties on whom they depend for their success over time. It is for each company to determine their key stakeholders based on what is material to their business and long-term financial performance. For many companies, key stakeholders include employees, business partners (such as suppliers and distributors), clients and consumers, regulators, and the communities in which they operate.

As a long-term shareholder on behalf of our clients, we find it helpful when companies disclose how they have identified their key stakeholders and considered their interests in business decision-making. In addition to understanding broader stakeholder relationships, BIS finds it helpful when companies consider the needs of their workforce today, and the skills required for their future business strategy. We

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<sup>8</sup> We have observed that more companies are developing such plans, and public policy makers in a number of markets are signaling their intentions to require them. We view transition plans (TPs) as a method for a company to both internally assess and externally communicate long-term strategy, ambition, objectives, and actions to create financial value through the global transition towards a low-carbon economy. While many initiatives across jurisdictions outline a framework for TPs, there is no consensus on the key elements these plans should contain. We view useful disclosure as that which communicates a company's approach to managing financially material, business relevant risks and opportunities – including climate-related risks – to deliver long-term financial performance, thus enabling investors to make more informed decisions.

<sup>9</sup> Given the growing awareness of the materiality of these issues for certain businesses, enhanced reporting on a company's natural capital dependencies and impacts would aid investors' understanding. In our view, the final recommendations of the [Taskforce on Nature-related Financial Disclosures](#) 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.

are also interested to understand the role of the board, which is well positioned to ensure that the approach taken is informed by and aligns with the company's strategy and purpose.

Companies should articulate how they address material adverse impacts that could arise from their business practices and affect critical relationships with their stakeholders. We encourage companies to implement, to the extent appropriate, monitoring processes (often referred to as due diligence) to identify and mitigate potential adverse impacts and grievance mechanisms to remediate any actual adverse material impacts. In our view, maintaining trust within these relationships can contribute to a company's long-term success.

## Shareholder proposals

In most markets in which BlackRock invests on behalf of clients, shareholders have the right to submit proposals to be voted on by shareholders at a company's annual or extraordinary meeting, as long as eligibility and procedural requirements are met. The matters that we see put forward by shareholders address a wide range of topics, including governance reforms, capital management, and improvements in the management or disclosure of sustainability-related risks.

BlackRock is subject to legal and regulatory requirements in the U.S. that place restrictions and limitations on how BlackRock can interact with the companies in which we invest on behalf of our clients, including our ability to submit shareholder proposals. We can vote, on behalf of clients who authorize us to do so, on proposals put forth by others.

When assessing shareholder proposals, we evaluate each proposal on its merit, with a singular focus on its implications for long-term financial value creation by that company. We believe it is helpful for companies to disclose the names of the proponent or organization that has submitted or advised on the proposal. We consider the business and economic relevance of the issue raised, as well as its materiality and the urgency with which our experience indicates it should be addressed. We would not support proposals that we believe would result in over-reaching into the basic business decisions of the company. We take into consideration the legal effect of the proposal, as shareholder proposals may be advisory or legally binding depending on the jurisdiction, while others may make requests that would be deemed illegal in a given jurisdiction.

Where a proposal is focused on a material business risk that we agree needs to be addressed and the intended outcome is consistent with long-term financial 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.

We recognize that some shareholder proposals bundle topics and/or specific requests and include supporting statements that explain the reasoning or objectives of the proponent. In voting on behalf of clients, we do not submit or edit proposals or the supporting statements – we must vote yes or no on the proposal as phrased by the proponent. Therefore, when we vote in support of a proposal, we are not necessarily endorsing every element of the proposal or the reasoning, objectives, or supporting statement of the proponent. We may support a proposal for different reasons from those put forth by the proponent, when we believe that, overall, it can advance our clients' long-term financial interests. We would normally explain to the company our rationale for supporting such proposals.

Alternatively, or in addition, we may vote against the election of one or more directors if, in our assessment, the board has not responded sufficiently or with an appropriate sense of urgency. We may

also support a proposal if management is on track, but we believe that voting in favor might accelerate efforts to address a material risk.

## Other corporate governance matters

In our view, shareholders have a right to material and timely 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 the effectiveness of the board's oversight of management and whether investors' economic interests have been protected. We believe shareholders should have the right to vote on key corporate governance matters, including 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 such as reflection of 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.

## Voting Choice

BlackRock offers a Voting Choice program, which provides eligible clients with more opportunities to participate in the proxy voting process where legally and operationally viable. BlackRock Voting Choice aims to make proxy voting easier and more accessible for eligible clients.

Voting Choice is currently available for eligible clients invested in certain institutional pooled funds in the U.S., UK, Ireland, and Canada that utilize equity index investment strategies, as well as eligible clients in certain institutional pooled funds in the U.S., UK, and Canada that use systematic active equity (SAE) strategies. Currently, this includes over 650 pooled investment funds, including equity index funds and SAE investment funds. In addition, institutional clients in separately managed accounts (SMAs) continue to be eligible for BlackRock Voting Choice regardless of their investment strategies.<sup>10</sup>

As a result, the shares attributed to BlackRock in company share registers may be voted differently depending on whether our clients have authorized BIS to vote on their behalf, have authorized BIS to vote

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<sup>10</sup> Read more about BlackRock Voting Choice on our website here <https://www.blackrock.com/corporate/about-us/investment-stewardship/blackrock-voting-choice>

in accordance with a third-party policy, or have elected to vote shares in accordance with their own policy. Agreements with our clients to allow them greater control over their voting, including which policies they have selected, will be treated confidentially consistent with our treatment of similar client agreements.

## 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 of LODR requires a board to comprise not less than 50% non-executive directors. Where the chairman of the board is a non-executive director, at least one third of the board should comprise independent<sup>11</sup> directors; where the chairman is an executive; at least 50% of the board should comprise independent directors.

There are companies controlled by the government of India known as Public Sector Undertakings (PSU) where the government holds more than 51% and have authority to nominate and remove INEDs. We view this as antithetical to the directors being truly independent with regards to proposals where the government may have a potential conflict of interest with the PSU. BlackRock may vote against these candidates at PSUs and other government-affiliated companies if we have concerns with the independence of the nomination process or the candidates.

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

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 re-election of director(s) deemed responsible.

### Independent directors

According to the 2013 Companies Act Section 149 (10) and (11), an independent director may serve up to two consecutive terms of five years each (10 years in total). BlackRock will consider voting against the re-election of a long-tenured independent director beyond their ten-year term.

### Diversity

The 2013 Companies Act stipulates that all listed companies have to have at least one female director. As such, we expect all companies to have at least one female board director. In the absence of such, we may vote against the re-election of director(s) deemed responsible for the lack of female representation on such boards.

### Compensation and benefits

#### Independent non-executive directors

Under the Companies Act independent 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

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<sup>11</sup> Independence is defined under the Companies Act, 2013 section (47).

does not make a profit shareholder approval must be obtained to pay independent 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 independent 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 fulfils all their 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 director(s) and/or commissioner(s) deemed responsible.

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<sup>12</sup> 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 director(s) deemed responsible.

## **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)

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<sup>12</sup> 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.

director. Should the board intend to retain the independent director beyond nine years, it must provide justification and seek an annual shareholders' approval under a two-tier voting process. In addition, effective 1 June 2023, the Listing Requirements caps the tenure of an independent director to not more than a cumulative tenure of 12 years in a listed issuer and its group of companies. Independent directors with tenures in excess of 12 years must resign or be re-designated as non-independent directors.

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

## **Diversity**

Under the Listing Rules, boards of listed issuers should have at least one woman director. However, the Code goes above that, stipulating that all boards should comprise at least 30% women directors, and if the composition of women on board is less than that, the board should disclose the action it has or will be taking to achieve 30% or more and the timeframe to achieve this. The Code defines a reasonable timeframe as one that is three years or less. In the absence of such, we may vote against the re-election of director(s) deemed responsible.

## **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:

- 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 2019 Philippine Code of Corporate Governance for Public Companies and Registered Issuers (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 Code requires public company boards to have the greater of at least three independent directors or at least one-third independent directors<sup>13</sup> on the board. The Code also recommends the separation of the chairman and CEO roles.

Where the structure of a board including the key committees 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 director(s) deemed responsible.

### Independent Directors

The Code stipulates that the board's independent directors should serve for a maximum cumulative term of nine years. After which, the independent director should be perpetually barred from re-election as such in the same company, but may continue to qualify for nomination and election as a non-independent director. In the instance that the company wants to retain an independent director who has served for nine years, the Board should provide meritorious justification/s and seek shareholders' approval during the annual shareholders' meeting.

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

### 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.

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.<sup>14</sup> 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 at least half of the board and appoint an independent director to be the lead independent director. Where the structure of a board including key committees does not meet

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<sup>13</sup> Independence is defined under the Philippine Code of Corporate Governance, Article 1 (e).

<sup>14</sup> Independence is defined under the Singapore Code of Corporate Governance, Principle 2.1.

the requirements of the Code, and a cogent explanation has not been provided, BlackRock will consider voting against the re-election of director(s) deemed responsible.

## Independent Directors

On 11 January 2023, SGX amended the Listing Rules (Mainboard) to prescribe a nine-year tenure limit for independent directors. Under Listing Rule 210(5)(d)(iv), as of the date of an issuer's annual general meeting for the financial year ending on or after 31 December 2023, a director who has served on the board of an issuer for an aggregate period of more than nine years (whether before or after listing) will no longer be eligible to be designated as an independent director of the issuer.

## Diversity

Rule 710A(1) of the SGX Listing Rules requires issuers to maintain a board diversity policy, and that the policy must address gender, skills and experience, and any other relevant aspects of diversity. The issuer must include in the disclosure of its board diversity policy, the following:

- a) The issuer's targets to achieve diversity on its board;
- b) The issuer's accompanying plans and timelines for achieving the targets;
- c) The issuers' progress towards achieving the targets within the timelines; and
- d) A description of how the combination of skills, talents, experience and diversity of its directors serves the needs and plans of the issuer.

Furthermore, given the significant progress<sup>15</sup> made in recent years to advance gender diversity in the boardrooms of Singapore-listed companies, we expect all listed companies in this market to have at least one female board director. In the absence of such, we may vote against the re-election of director(s) deemed responsible for the lack of female representation on such boards.

## 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

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<sup>15</sup> [Singapore Council for Board Diversity; SGX Consultation Paper on Climate and Diversity.](#)

- 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 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 their 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 their 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<sup>16</sup> 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, 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 Financial Investment Services And Capital Markets Act, and the Stock Market Listing Regulations (Listing Regulations). Korea Institute of Corporate Governance and Sustainability (KCGS) has also released the Code of Best Practices for Corporate Governance (Code), which recommends companies to actively adhere to.

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<sup>17</sup> 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 including key committees 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 director(s) deemed responsible.

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<sup>16</sup> 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.

<sup>17</sup> The definition of Outside Director as per the Korean Code of Best Practices for Corporate Governance, Section 4.

## Diversity

Article 165-20 of the Financial Investment Services and Capital Markets Act stipulates that Large Companies should not have a board of directors made up of just one gender. As such, we expect all Large Companies to have at least one female board director. In the absence of such, we may vote against the re-election of director(s) deemed responsible for the lack of female representation on such boards.

## 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 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. The Code further recommends the audit committee to be comprised of only independent directors.

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 an independent non-executive director for long service and may inhibit an independent 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 three Corporate Governance Roadmaps with specific governance improvement objectives in 2013, 2018 and 2020. The 2020 Roadmap lays out key objectives over 2021 to 2023, including 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 and set up independent audit committees. Through several phases of introduction, all listed companies should complete the establishment of audit committees by the end of 2022. 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, where overall board independence must be no less than one-fifth. Large companies<sup>18</sup> must achieve no less than one-third board independence.

Where the structure of a board including key committees does not meet the requirements set above, and a cogent explanation has not been provided, BlackRock will consider voting against the re-election of director(s) deemed responsible.

## **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 opposes the practice of legal entity directors and urges companies to refrain from utilizing

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<sup>18</sup> Large companies in Taiwan are defined as constituents in MSCI Taiwan index.

such a structure. When there is no representative on legal entity directors at the time of director's election, BlackRock will consider voting against the re-election of director(s) deemed responsible.

## **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.

For the boards of government-affiliated or state-owned companies specifically, independent directors who are currently employed by the government in any executive or advisory capacity will be reclassified as non-independent.

Where a board does not, without explanation, meet the independence requirements of the Principles, BlackRock will consider voting against the re-election of director(s) deemed responsible.

### **Director compensation**

Thai companies often pay bonuses to all directors, including independent directors, that are linked to short-term performance. When disclosed, these bonuses and the pool that they are paid out of are often defined as a percent of net profit or annual dividends. Independent directors should not receive such 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.

## Want to know more?

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