

BlackRock Investment Stewardship

**Proxy voting guidelines for
Australian securities**

Effective as of February 2021

BlackRock®

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

Executive summary

We believe BlackRock has a responsibility to monitor and provide feedback to companies, in our role as stewards of our clients' investments. BlackRock Investment Stewardship ("BIS") does this through engagement with management teams and/or board members on material business issues including environmental, social, and governance ("ESG") matters and, for those clients who have given us authority, through voting proxies in the best long-term economic interests of our clients.

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 policy for Australia is based on the guidelines established by the Corporate Governance Principles and Recommendations of the Australian Securities Exchange Corporate Governance Council (updated in 2019) ("ASXCGC"), the Australian Council of Superannuation Investors ("ACSI"), the Australian Prudential Regulatory Authority Prudential Standards and Prudential Practice Guide ("APRA") and the Financial Services Council (FSC). These all have in common the principles of accountability, transparency, fairness and responsibility.

Our approach to voting and corporate engagement is also informed by the FSC Guidance Note No.20 and other guidance on exercising ownership responsibilities issued by organizations such as the Principles of Responsible Investment and the International Corporate Governance Network. We are actively involved in these organizations and believe our principles are consistent with their guidance.

"If not why not" approach

We strongly believe the "if not why not" approach of the ASX Corporate Governance Principles provides the appropriate mechanism for ensuring effective pragmatic governance of Australian listed companies. We expect every listed company to provide a meaningful statement as to its adherence to the ASX Corporate Governance Principles and explicit justification of any deviation from either set of principles, explaining how these serve the interests of the company's shareholders.

Engagement

BlackRock looks to companies to provide timely, accurate and comprehensive reporting on all material governance and business matters including ESG issues. This allows shareholders to appropriately understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or the approach taken is inconsistent with our view of what supports sustainable long-term value creation, we will engage with a company and/or use our vote to encourage a change in practice.

BlackRock views engagement as an important activity; engagement provides us with the opportunity to improve our understanding of the business and ESG risks and opportunities that are material to the companies in which our clients invest. As long-term investors on behalf of clients, we seek to have regular and continuing dialogue with executives and board directors to advance sound governance and sustainable business practices, as well as to understand the effectiveness of the company's management and oversight of material issues. Engagement is an important mechanism for providing feedback on company practices and disclosures, particularly where we believe they could be enhanced. We primarily engage through direct dialogue but may use other tools such as written correspondence to share our perspectives. Engagement will also inform our voting decisions.

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 Australia includes but is not limited to the S&P/ASX 300. 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 team, 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. Where we decide to vote against management or abstain from voting on a particular proposal we advise the company in advance whenever possible.

Proxy voting guidelines for Australian securities

These guidelines are divided into eight key themes as follows:

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

Boards and directors

The performance of the board is critical to the economic success of the company and the protection of shareholders' interests. As part of their responsibilities, board members owe fiduciary duties to shareholders in overseeing the strategic direction and operation of the company. For this reason, BlackRock focuses on directors in many of our engagements and sees the election of directors as one of our most important responsibilities in the proxy voting context.

Director elections

We support boards whose approach is consistent with creating sustainable long-term value. This includes the effective management of strategic, operational, and material ESG factors and the consideration of key stakeholder interests. Our primary focus is on the performance of the board of directors. The board should establish and maintain a framework of robust and effective governance mechanisms to support its oversight of the company's strategic aims. 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. Disclosure of material issues that affect the company's long-term strategy and value creation, including material ESG factors, is essential for shareholders to be able to appropriately understand and assess how the board is effectively identifying, managing, and mitigating risks.

Where a company has not adequately disclosed and demonstrated these responsibilities, we will consider withholding our support for the re-election of directors whom we hold accountable. We assess director performance on a case-by-case basis and in light of each company's particular circumstances, taking into consideration our assessment of their governance, sustainable business practices, and performance.

Composition of the board of directors

Regular director elections also give boards the opportunity to adjust their composition in an orderly way to reflect the evolution of the company's strategy and the market environment. BlackRock believes it is beneficial for new directors to be brought onto the board periodically to refresh the group's thinking and in a manner that supports both continuity and appropriate succession planning. We expect companies to keep under regular review the effectiveness of its board (including its size), and assess directors nominated for election or re-election in the context of the composition of the board as a whole. This assessment should consider a number of factors, including the potential need to address gaps in skills or experience, the diversity of the board, and the balance of independent and non-independent directors. We also consider the average tenure of the overall board, where we are seeking a balance between the knowledge and experience of longer-serving members and the fresh perspectives of newer members.

Majority of independent directors

BlackRock expects the board of a listed company to have a majority of independent directors unless an acceptable explanation is provided. Where a board does not comprise a majority of independent directors it should take particular care with its explanation for not achieving a majority given the importance to shareholders of having an effective and objective board.

In cases where the board does not comprise a majority of independent directors, BlackRock may consider voting against the re-election of a non-independent director, and/or the chair of the nomination committee, particularly if other significant corporate governance issues exist.

Independent chair

BlackRock expects the chair to be independent. Where the chair is not considered to be independent BlackRock expects a cogent explanation to be provided by the company and the independent directors to appoint one of their own as the lead independent director. We believe that the responsibilities of the lead independent director should include but are not limited to:

- Presiding at all meetings of the board at which the chair is not present, including sessions of the independent directors;
- Calling meetings of the independent directors;
- Serve as principal liaison on board-wide issues between the independent directors and the chair;
- Approving the quality, quantity, appropriateness and timeliness of information sent to the board as well as approving meeting agenda items;
- Facilitating the board's approval of the number and frequency of board meetings, as well as meeting schedules to assure that there is sufficient time for discussion of all agenda items;
- Retain outside advisors and consultants who report directly to the board of directors on board-wide issues;
- Ensuring he/she be available, if requested by shareholders, when appropriate, for consultation and direct communication;
- He/she should agree to and document the split roles between a non-independent chair, the CEO and the lead independent director and have this published on the company's website so that shareholders can understand the break out of responsibilities.

Where a company does not have an independent chair, a lead independent director has not been appointed and a cogent explanation has not been provided, BlackRock may consider voting against the re-election of the chair particularly if other significant corporate governance issues exist.

Assessment of independence

We expect there to 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.

An independent director is a non-executive director and generally should:

- Have no familial or material business or financial or perceived relationship with the company, its executives or other board members (except for board service and annual fees paid for that service) which may interfere with the non-executive director's ability to act in the best interests of the company;
- Not have been an employee of the company within the last three years. Further, a non-executive director who has been an employee of the company as a senior executive is not considered to be independent unless there has been a break of at least three years between leaving employment becoming a non-executive director of the company;
- Not have been within the last three years a principal or employee of a professional advisor to the company or a related company;
- Not have participated in any equity based remuneration that involves vesting based on performance of the company or continuing service as a non-executive director;
- Not control more than 5% or more of the company's voting securities or be an executive or other representative of a company that owns or controls more than 5% or more of the company's voting securities. Where a non-executive director was a representative of such a former substantial security but remains on the board after the former substantial security holder disposes of the holding, and in the absence of any other relationship between the company and the non-executive director or the former substantial security holder, we will consider reclassifying the non-executive director as independent.
- Be classified by the company as independent;
- Not hold cross-directorships or significant links with other directors through the involvement in other companies or bodies;
- Not have received fees or income for services to the company, except for board service and annual fees paid for that service, and which are significant in relation to the non-executive director fees received by the director;
- Not be a partner/director or senior executive of a professional services firm such as an accounting firm, consulting firm, law firm or investment bank where the firm is paid for services and not the individual directly;
- Not be 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:
- Have no material contractual relationship with the company or another group member other than as a director of the company;
- Be 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.

Conflicts of interest

BlackRock believes that all non-executive directors should be free from material conflicts of interest. Non-executive directors, their immediate family or related professional company, which has 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 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.

Length of service

BlackRock believes that shareholders are best served when there is orderly renewal of the board as this should result in directors with accumulated experience while at the same time introducing fresh thinking and experience to the board. An effective renewal process will ensure that non-executive directors do not serve for such length of time that their independence may be impaired.

BlackRock will review the status of independent directors where they have been on the board in excess of 12 years. We will consider voting against the re-election of a non-executive director who has served for a period in excess of 12 years particularly if there are other concerns regarding the corporate governance of the company.

Board size

While BlackRock believes the board is normally best placed to determine the size of the board, we expect board size to reflect the size and complexity of the company. We do however believe that a minimum board size of five is necessary for an ASX 200 company to ensure a good mix of skills and diversity amongst the independent directors.

BlackRock also believes that shareholders should have the ability to nominate directors to the board and, should they receive a majority of votes, be able to take their position on the board. BlackRock, therefore, does not support changes to constitutions which are likely to restrict the ability of shareholders to nominate for or to be elected to, the board. Accordingly, BlackRock may consider voting against a change to a constitution that places a cap on the number of directors on the 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.

When nominating new directors to the board, there should be detailed information on the individual candidates in order for shareholders to assess the suitability of an individual nominee and the overall board composition. These disclosures should give a clear sense of how the collective experience and expertise of the board aligns with the company's long-term strategy and business model. We also expect disclosures to demonstrate how diversity is accounted for within the proposed board composition, including demographic factors such as gender, ethnicity, and age; as well as professional characteristics, such as a director's industry experience, specialist areas of expertise, and geographic location.

The board should disclose in the annual report and/or website the required mix and diversity of skills, experience and other qualities, including core industry competencies that each director brings to the board, the process by which candidates are identified and selected including whether professional search firms have been engaged to identify and/or assess candidates, the procedures used to ensure a diverse range of candidates is considered and factors taken into account in the selection process. The annual corporate governance statement should also disclose the process adopted by the board to evaluate the performance of each director. BlackRock believes that annual performance reviews of the non-executive directors, including the chair, contribute to a more efficiently functioning board.

Ethical conduct and decision making

BlackRock expects companies to have a code of conduct for directors, executives and other employees with such policy disclosed on the company's website. The disclosure should explain how the policy is communicated to all levels of employees to ensure its effectiveness.

Diversity

Diversity recognizes differences relating to factors such as gender, ethnicity, and age; as well as professional characteristics, such as a director's industry, area of expertise, and geographic location. While the definition of diversity is broad a key area that requires focus relates to gender equality in the workplace.

When a company has a diversity policy BlackRock expects that in addition to the requirements set out in ASX Corporate Governance Principles and Recommendations the following information will be disclosed:

- The governance structure;
- The percentage of women on the board and whether the board sets any measurable targets for increasing the number of women on the board;
- The percentage of women in senior executive roles and whether the board sets any measurable targets for increasing gender diversity at senior management;
- Why the board believes the diversity policy is beneficial to the company, that is, an articulation of a compelling business case for gender diversity in the entity as part of the business strategy, and whether there are internal procedures to review the effectiveness of the diversity policy;
- Initiatives the company has in place (if any) to address diversity in senior executive positions and whether those initiatives are measured and evaluated; and
- Any work undertaken or policies on pay equity.

To the extent that we believe a company has not adequately accounted for diversity in its board composition, we may vote against the nomination committee members or, where doing so could further undermine the board's diversity, against other appropriate board members (including the chair of the board).

External board mandates

As the role of a director is demanding, directors must be able to commit an appropriate amount of time to board and committee matters. It is important that every director has the capacity to meet all of his/her responsibilities - including when there are unforeseen events - and therefore, he/she should not take on an excessive number of roles that would impair his/her ability to fulfill his/her duties. In BlackRock's view it is the responsibility of the chair to ensure that all the directors are able to commit an appropriate amount of time to board and committee matters, and are participating actively and contributing to the workload of the board on a continuing basis as well as through a formal evaluation.

BlackRock may vote against the re-election of a director where there is a risk the director may be over committed in respect of membership of other listed boards.

Non-executive directors who are full-time executives of other major listed companies

BlackRock has concerns when a full-time CEO accepts a non-executive role at an unrelated company. Full time CEO's are expected to work for their board and shareholders with full focus. As discussed above, non-executive directors need to have spare capacity when a major transaction occurs. BlackRock is concerned that where a full-time CEO has a non-executive director role there is a risk that their ability to fully serve in either role could be compromised. BlackRock may consider voting against a non-executive director who is also a full time CEO of a major listed company.

External/nominated board candidates

In general BlackRock supports the recommendations of the board regarding the election of directors. BlackRock does not ordinarily support individuals who have nominated themselves for the board unless they have the support of the board. In particular, BlackRock would not support an external candidate who has a restricted agenda as directors should act on behalf of all shareholders and deal with all issues that may arise. However, where we believe the addition of an external candidate to the board will add to the skill set of the board and is in the best interests of shareholders, we will support them.

Share ownership by non-executive directors

BlackRock believes listed companies should have a clear and disclosed policy on non-executive director share ownership. We believe that non-executive directors should have some “skin in the game” in order to align their interests with those of public shareholders. Such policies should require non-executive directors, within a reasonable amount of time after joining the board, to accumulate a meaningful investment.

Where a non-executive director continues serving on a board and fails to accumulate a meaningful investment and other significant corporate governance issues exist, BlackRock may vote against the individual.

Disclosure of equity subject to margin calls

Directors and senior executives should be able to manage their assets in the same way that other shareholders can. Margin calls can have a significant impact on a company’s share price when the call is made on a significant shareholder.

Where a director’s investment, which is subject to margin calls, exceeds 2% of issued capital, the number of shares subject to margin calls and the margin call prices should be disclosed.

Where a company fails to disclose a material holding of a director which has been subject to margin calls and margin calls are subsequently made, resulting in a negative impact on the share price, BlackRock will consider voting against the director concerned and/or the chair for failing to disclose such material information to shareholders.

Meeting attendance

Directors should ensure that they attend all board and committee meetings. BlackRock will consider voting against a director who fails to attend fewer than 75% of board and committee meetings for his/her past term as 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 in dealing with conflicts of interest.

BlackRock expects all companies to establish an audit committee. For companies within the S&P/ASX 200, at a minimum BlackRock expects the establishment of separate committees to focus on the issues of nomination and remuneration. For companies outside the S&P/ASX 200, it is acceptable to have the roles of nomination and remuneration combined within the one 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 chair of a committee should be independent. It is preferable for the chair of the board not to chair board committees as this may lead to a concentration of power in a single director.

For S&P/ASX 200 companies we expect each committee to have at least three members. For companies outside the S&P/ASX 200, depending on the size and complexity of the company, a committee of two may be appropriate.

Audit Committee

The audit committee should comprise solely independent directors, with the appropriate mix of skills, including financial skills, and experience for its role.

The terms of reference for the audit committee should have appropriate powers to determine the scope of the audit process, review the effectiveness of the external auditor, assess, review and authorise non-audit work, have access to the internal audit process and to make recommendations regarding the appointment and removal of the external auditor.

Where a risk committee has been established in addition to an audit committee, clear disclosure needs to be made on the responsibilities of each committee and how they interact.

Where the audit committee is not comprised solely of independent directors, BlackRock will consider voting against the re-election of the chair of the audit committee or the non-independent member of the audit committee particularly if there are other corporate governance issues.

A demonstrably independent audit is essential for investor confidence. Where non-audit fees exceed the level of audit fees in any year, BlackRock will review the nature of the non-audit fees and any explanation provided by the company for the significant level of non-audit fees. Full details of all non-audit work should be disclosed. If there is a lack of explanation of the non-audit services or we believe there is a risk that the type of non-audit services provided may impair the independence of the audit, we will consider voting against the re-election of the chair of the audit committee if he/she is seeking re-election.

Other circumstances where BlackRock may consider voting against the re-election of the chair of the audit committee include but are not limited to:

- If within the last three years accounting fraud has occurred in the company;
- If within the last three years the financial statements have been restated due to negligence or fraud;
- If the company repeatedly fails to file its financial reports in a timely fashion.

Nomination Committee

The responsibilities of the nomination committee should include a review of and recommendations to the board on issues including but not limited to:

- Assessing the competencies of all directors to ensure the board has an appropriate range of skills and expertise;
- Implementing a plan for identifying, assessing and enhancing director competencies;
- Reviewing, at least annually, the succession plans of the board;
- Ensuring the size and composition of the board is conducive to making appropriate decisions;
- Reviewing the time required by each non-executive director to undertake their role and whether non-executive directors are meeting that requirement;
- Ensuring a process for the evaluation of the performance of the board, its committees and directors and reporting the process to shareholders in the annual corporate governance statement;
- The appointment and re-election of directors;
- Maintaining a watching brief on the development of management and potential for senior executive succession planning from the level below senior executive.

BlackRock expects the board to have a formal and transparent process for the selection, appointment and re-appointment of directors to the board. Disclosure of the process helps promote BlackRock's understanding of and confidence in that process. The process should be disclosed in the annual corporate governance statement and include an explanation of the mix of skills and diversity the board is looking for.

Circumstances where BlackRock may consider voting against the re-election of the chair and/or members of the nomination committee include but are not limited to:

- If the composition of the board continues to reflect poor succession planning, renewal or other composition deficiency;
- If the committee approved the nomination or re-election of an individual who has demonstrated a lack of integrity or inability to represent the interests of shareholders or who has an actual or perceived significant conflict of interest that poses a risk to shareholders;
- If the committee fails to hold a meeting in the reporting year.

Remuneration Committee

The remuneration committee for an S&P/ASX 200 company should comprise solely non-executive directors. In BlackRock's view S&P/ASX 200 companies should not have executives as members as there is the potential for, or perception of, a conflict of interest if executive directors are involved in board decisions on their remuneration packages.

For companies outside the S&P/ASX 200 index, while our preference is for the remuneration committee to comprise solely non-executive directors, we understand that due to the size of the company and the development phase it may be in, the presence of the CEO on the committee may be acceptable. In such cases we expect disclosure of the protocols in place to ensure the CEO is not involved in determining his/her remuneration arrangements.

The responsibilities of the remuneration committee should include a review of and recommendations to the board on issues including but not limited to:

- The company's remuneration, recruitment, retention and termination policies for senior executives;
- Executive director and senior executive fixed and performance based remuneration to ensure that executives are motivated to pursue the long-term growth and success of the company;
- Superannuation arrangements;
- The remuneration framework for non-executive directors;
- Direct consultation with institutional shareholders, i.e. not through the use of consultants or management.

Circumstances where BlackRock may consider voting against the re-election of the chair and/or members of the remuneration committee include but are not limited to:

- If the composition of the remuneration committee fails to meet these guidelines;
- If BlackRock has continuing concerns regarding the structure of remuneration and has raised these concerns with the company and the company continues the egregious practices;
- If the committee fails to hold a meeting in the reporting year.

Risk management committee

BlackRock believes that a sound framework of risk oversight, management and control is fundamental to the long-term sustainable growth of shareholder value. The board is responsible for both establishing and overseeing the risk management framework of the company.

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.

The accuracy of financial statements, inclusive of financial and non-financial information, is clearly of paramount importance to BlackRock. Investors' views on financial materiality are developing to encompass a broader range of risks. Over time, we expect increased scrutiny of the assumptions underlying financial reports.

In this context, audit committees or equivalent play a vital role in a company's financial reporting system, by providing independent oversight of the accounts, material financial and non-financial information, internal control frameworks and Enterprise Risk Management systems. BlackRock believes that effective audit and risk committee oversight strengthens the quality and reliability of a company's financial statements and operations and provides an important level of reassurance to shareholders.

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 take particular note of critical accounting matters, 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.

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 committee or equivalent 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 accountants, and management's steps to address them. In the absence of robust disclosures, we may reasonably conclude that companies are not adequately managing risk.

Accounts

Australian listed companies are not required to put their annual accounts and reports to shareholders for a vote. However, some companies choose to submit their annual accounts and reports for a shareholder vote. In these cases and where there is an unqualified auditors' report, BlackRock will support such proposals.

Change of audit firm

Australian law does not require the annual election of auditors. If a listed company wishes to change its audit firm, the incumbent firm must seek consent from the regulator, the Australian Securities and Investments Commission (ASIC) and is required to state the following:

- There are no disputes with company management connected with the auditor ceasing to hold office;
- There are no circumstances connected with the auditor ceasing to hold office which should be brought to ASIC's attention.

When the board of an Australian listed company appoints a new audit firm, shareholders have the opportunity to endorse, or otherwise, the new appointment at the annual general meeting, following the change.

BlackRock expects newly appointed audit firms to be well qualified to undertake the task on behalf of shareholders and also be free from conflicts of interest.

Capital structure, mergers, asset sales and other special transactions

Approvals and ratification of placements

ASX Listing Rule 7 limits listed companies from issuing more than 15% of equity on a non-pro rata basis in a 12 month period without shareholder approval. Companies can seek shareholder approval to exceed the 15% limit. BlackRock will consider each request to issue more than 15% of equity in a 12 month period on a case by case basis.

When requesting shareholder approval to issue more than 15% of equity on a non-pro rata basis companies should disclose:

- To whom it is proposed to issue the equity;
- 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;
- Alternatives considered by the company;
- Impact, if any on change of control;
- Conversion rates on equity (if applicable).

Where the above information is not forthcoming and/or the approval may result in unnecessary dilution for a majority of shareholders, BlackRock will consider voting against the approval request.

Companies can also request the ratification of previous share placements in order for that placement not to count towards their annual 15% allocation. If on behalf of any funds BlackRock has participated in a placement that is subject to ratification by shareholders, then pursuant to Listing Rule 7 it is unable to vote on the proposal on behalf of those funds. BlackRock will register an abstention on behalf of any funds who participated in the particular placement.

Where BlackRock has not participated on behalf of any funds in a placement which shareholders are being asked to ratify for the purposes of Listing Rule 7, we expect the following information to be disclosed:

- To whom the equity was issued;
- 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;
- Alternatives considered by the company;
- Impact, if any on change of control;
- Conversion rates on equity (if applicable).

Where the above information is not forthcoming, BlackRock will consider voting against the ratification request.

Listing Rule 7A

For eligible companies seeking shareholder approval for the issuance of additional capital pursuant to Listing Rule 7A, BlackRock expects the following information, in addition to the requirements of Listing Rule 7A, to be disclosed:

- The nature of proposed recipients i.e., sophisticated investors, cornerstone investor, strategic alliance;
- Details of any discounts to be offered and the rationale behind any proposed discount;

- The basis of determining the issue price;
- Alternative capital raising methods considered by the company;
- Conversion rates on equity (if applicable).

Mergers, asset sales, and other special transactions

In reviewing merger and asset sale proposals, BlackRock's primary concern is the best long-term economic interests of our clients as shareholders. While these proposals vary widely in scope and substance, we closely examine certain salient features in our analyses. For mergers and asset sales, we assess the degree to which the proposed transaction represents a premium to the company's trading price. In order to filter out the effects of pre-merger news leaks on the parties' share prices, we consider a share price from multiple time periods prior to the date of the merger announcement. In most cases, business combinations should provide a premium. We may consider comparable transaction analyses provided by the parties' financial advisors and our own valuation assessments. For companies facing insolvency or bankruptcy, a premium may not apply. Where the transaction involves -parties we expect the board to establish a committee comprised of independent directors to review the transaction and report to shareholders. There should be a favourable business reason for the combination.

Unanimous board approval and arm's-length negotiations are preferred. We will consider whether the transaction involves a dissenting board or does not appear to be the result of an arm's-length bidding process. We may also consider whether executive and/or board members' financial interests in a given transaction appear likely to affect their ability to place shareholders' interests before their own.

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.

Remuneration and benefits

The key purpose of remuneration is to reward, attract and retain competent directors, executives and other staff who are fundamental to the long-term sustainable growth of shareholder value, with reward for executives contingent at least in part on controllable outcomes that add value. BlackRock expects a company's board of directors to put in place a remuneration structure that incentivizes and rewards executives appropriately and is linked with performance that aligns with shareholder interests, particularly the generation of sustainable long-term value. We would expect the remuneration committee to carefully consider the specific circumstances of the company and the key individuals the board is trying to incentivize. We encourage companies to ensure that their remuneration plans incorporate appropriate and rigorous performance metrics consistent with corporate strategy and market practice. We use third party research, in addition to our own analysis, to evaluate existing and proposed remuneration structures. We hold members of the remuneration committee or equivalent board members accountable for poor remuneration practices or structures.

When assessing remuneration policies and practices of ASX listed companies BlackRock is looking for a cogent explanation for the policies used and in respect of executive remuneration in particular, a clear link to the board's stated strategy.

BlackRock believes that there should be a clear link between variable pay and company performance that drives value creation. We are not supportive of one-off or special bonuses unrelated to company or individual performance. Where discretion has been used by the remuneration committee, we expect disclosure relating to how and why the discretion was used, and further, how the adjusted outcome is aligned with the interests of shareholders. We acknowledge that the use of peer group evaluation by remuneration 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 support incentive plans that foster the sustainable achievement of results consistent with the company's long-term strategic initiatives. The vesting timeframes associated with incentive plans should facilitate a focus on long-term value creation. We believe consideration should be given to building claw back provisions into incentive plans such that executives would be required to forgo rewards when they are not justified by actual performance and/or when remuneration was based on faulty financial reporting or deceptive business practices. We also favor recoupment from 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. Remuneration committees should guard against contractual arrangements that would entitle executives to material remuneration for early termination of their contract. Finally, pension contributions and other deferred remuneration arrangements should be reasonable in light of market practice.

Non-executive director remuneration

The role of the non-executive director is to monitor the strategy, performance and remuneration of the executives and to protect the interests of shareholders in the long-term. Non-executive directors should receive sufficient remuneration to attract and retain suitably qualified non-executive directors and encourage them to undertake their role diligently.

The executive arm and any major shareholder should not have any undue influence over the remuneration of non-executive directors.

Structure of non-executive director remuneration

Non-executive director remuneration should be structured in such a way that it aligns the interests of the directors with those of the shareholders they represent. The structure of non-executive director remuneration should not provide any disincentive to resign from the board should an issue of conflict or any other issue that would impair a director's independence arise.

Non-executive directors should receive a fixed annual fee, including additional fixed fees for board committee membership for their services. BlackRock supports non-executive directors entering into "salary sacrifice" arrangements whereby a portion of their fees is received by way of fully paid shares purchased on market. As noted above, we believe that non-executive directors should have a meaningful shareholding in the company. Such arrangements assist in aligning the interests of non-executive directors with those of shareholders.

Cap on fees paid to non-executive directors

The Corporations Act requires shareholders to approve a cap on total cash fees paid to non-executive directors. When directors want 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, the proposed level of non-executive director fees, including additional amounts for service on committees and any proposed changes to the size of the board to be disclosed. Where a company has failed to provide this information, BlackRock will consider voting against the requested increase in fee cap.

Option grants and performance based remuneration to non-executive directors

BlackRock does not generally support the granting of options to non-executive directors as such securities do not have the same risk profile as the ordinary shares held by ordinary shareholders and therefore may not align the interests of directors with those of the shareholders they represent.

Non-executive 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.

Where options or performance based remuneration has been granted to non-executive directors, BlackRock will consider voting against any such proposals and the re-election of the chair of the remuneration committee who must take responsibility for such poor remuneration structures.

For smaller companies in a development/exploration phase such as biotech or mining companies, which typically have high cash burn rates and little or no income from operations, BlackRock will support the grant of options or share rights to non-executive directors where the options are issued in lieu of cash fees (as a cash saving measure), there are no performance conditions and full vesting occurs within 12 months of grant date.

Retirement benefits

Non-executive directors should not receive any form of service contingent retirement benefit apart from statutory superannuation remuneration. 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.

Hedging of securities

Given the nature of the role of the non-executive director and his/her access to information, in BlackRock's view it is inappropriate for non-executive directors to enter into hedging arrangements relating to their direct and indirect shareholdings.

As discussed above, in certain circumstances BlackRock believes directors should disclose shares subject to margin calls.

Executive remuneration

Given the uniqueness of each Australian listed company, and the numerous industries represented on the ASX, we do not believe there is a "one size fits all" approach to the structure of executive remuneration. However, there are aspects of executive remuneration that are considered to be part of an evolving framework that we typically see. Where there is a significant departure from this framework, a cogent explanation is required and will be taken into account by BlackRock when assessing executive remuneration issues.

Executive remuneration contracts

Disclosure to the ASX

Upon appointment of an executive director or where there have been material changes to the terms of an executive director's contract of employment, BlackRock expects disclosure of the key features of contracts to the ASX. Such disclosure should include, but is not limited to the following features of the contract of employment:

- Period of the contract;
- Quantum of fixed remuneration;
- Structure of any performance based remuneration;
- Notice period and termination provisions;

- Sign-on remuneration;
- Retention provisions;
- Post-employment restrictions on trade and consideration paid;
- Post-employment consulting or advisory relationships;
- Post-employment vesting of payments granted during employment;
- Contractual provisions for conflicts of interest, including acceptance of payments from shareholders, employees, suppliers, customers and others with a pecuniary interest in company activities;
- Change on control provision and the impact on variable remuneration;
- Any other material issues which will assist shareholders to fully understand the terms.

Length of contracts

While it is reasonable for a contract to have an initial maximum term of up to three years, BlackRock expects contracts to be renewed on a one year rolling contract basis. Such arrangements should minimize post-employment payments by the company to executives.

Where longer term contracts are entered into, or contracts are renewed for periods in excess of one year, BlackRock expects the reason for such approvals to be explained and justified by the remuneration committee.

Change of control provisions

Any change of control provisions that affect the remuneration arrangements of any key management personnel (KMP) should be disclosed in the remuneration report.

BlackRock believes that the remuneration committee should have discretion in relation to change of control provisions as the circumstances that may result in a change of control are varied and cannot be determined at the time contracts are entered into.

Elements of executive remuneration

Executive remuneration will generally, but not necessarily comprise some or all of the following elements:

- Fixed remuneration (not subject to performance conditions)
 - Base remuneration
 - Superannuation contributions
 - Non-monetary benefits
 - Non-performance contingent equity
 - Leave entitlements
 - Sign-on payments
 - Retention provisions
 - Termination provisions
- Performance based remuneration (subject to performance conditions)
 - Short term incentive (STI)
 - Long-term incentive (LTI)

Fixed remuneration

Fixed remuneration should reflect the responsibilities of the executive role taking into account, inter alia, business and geographical complexity. When assessing the appropriateness of the level of fixed remuneration, BlackRock will use the median of the company's market cap peer group as a guide. Where a CEO's fixed remuneration is significantly above the median of the company's market cap peer group, BlackRock expects to see a cogent explanation in the remuneration report. Peer companies used for comparison and remuneration setting should be disclosed, as should the remuneration positioning relative to the peer group. Changes for both the peer group and fixed remuneration from prior years should be disclosed with rationale provided. BlackRock expects companies to select peers that are broadly comparable to the company in question, based on objective criteria that are directly relevant to setting competitive remuneration; we evaluate peer group selection based on factors including, but not limited to, business size, relevance, complexity, risk profile, and/or geography.

In case of a significant increase in fixed remuneration year-on-year that appears to be out of line with the rest of the workforce, BlackRock expects the company to provide a strong supporting rationale. Large increases should not be justified principally by benchmarking but should progress in pace with the evolution of the scope of the role and its complexity. If justified by additional complexity, we expect companies to provide a detailed explanation of how the role has substantially changed. We do not see an increase in market capitalization of the company as an appropriate proxy for the complexity of the role or an appropriate justification for an increase in salary;

We expect boards to consider the timing of any pay increase relative to the current performance of the company. Especially in the case of a merger or acquisition, boards should wait a number of years before increasing remuneration to ensure that the executives are delivering sustained performance.

Performance based remuneration

Performance based remuneration is forming an increasingly significant part of executive remuneration. Performance can be measured over periods as short as one year (short term incentives) or longer (long-term incentives). How the remuneration committee has determined the balance between short and long-term performance based pay should be clearly disclosed in the remuneration report.

Performance metrics comprise both financial and non-financial measures. The remuneration report should clearly disclose the rationale for each performance metric used, the rationale behind the balance between financial and non-financial metrics and how such metrics incentivize management to drive long-term sustainable performance of the company.

Short term incentives

STIs should be linked to performance. Disclosure in the remuneration report should provide shareholders with an understanding of the maximum amount of STI award an executive can earn in a given year. For example, this may be expressed as a percentage of fixed remuneration.

The remuneration report should clearly state the performance measures and the hurdles that are required to be met for an STI to vest. BlackRock does however; accept that in the case of STIs, performance measures may involve commercially sensitive information. In such cases, BlackRock will accept non-disclosure of future performance targets, however, expects retrospective disclosure of the nature of the performance measure, the performance hurdle met and the percentage of the award that vested on an annual basis.

The remuneration report should also explain why each STI performance measure was selected and the relationship of each performance measure to the company's stated short term strategy.

The remuneration report should clearly disclose the performance measures that were met, the performance hurdle that was achieved and the amount of remuneration rewarded in respect of each performance measure for each KMP.

BlackRock also encourages companies to defer a significant portion of an annual performance based award into equity which may vest over a period of around three years from grant date. Deferring a significant portion of an STI will encourage management to think beyond the initial 12 month performance period.

Disclosures should indicate if any discretion has been applied, any change in policy from prior years and any exceptions to policy in the reporting period and reasons for such departure.

BlackRock is always concerned where executives appear to have been rewarded via an STI when short term performance has been prima facie poor. In such situations BlackRock expects a cogent explanation regarding why management appears to have been rewarded for poor performance. BlackRock may consider voting against a remuneration report where there is a significant mismatch between performance and executive remuneration rewards.

Long-term Incentives: Link between long-term remuneration structure and company strategy

Blackrock expects a clear link between the structure of a company's long-term incentive plans and the company's strategy. The link between executive remuneration structure and strategy should relate to the performance period and performance measures used. Explanations should address risk management.

Annual grants of awards

It is preferable for long-term incentive awards to be made in annual grants rather than in an ad hoc manner. Annual grants allow the remuneration committee to use its discretion to amend the terms of grants as circumstances change. Exceptions may be made in start-up or transformational situations where specific and highly value adding milestones can be identified.

Board and remuneration committee discretion

When the terms for an LTI covering a period of between three and five years are set it is not possible to be able to predict all circumstances which may impact the final outcome of the plan. Therefore, BlackRock believes the board should have discretion over the final outcome of any plan. Where discretion has been used by the board or remuneration committee that has impacted the outcome of a plan, BlackRock expects disclosure of why and how the discretion was used.

Performance period

The performance period chosen should be linked to the type of business and overall long-term strategy. For example a company involved in the construction/operation of major infrastructure assets would be expected to have a performance period of not less than three years and preferably up to five years. For companies operating in the retail sector, where fast turnover of stock is essential, BlackRock accepts a performance period of less than three years. Where a performance period for a long-term incentive is less than three years, a company should provide a clear explanation for the short performance period and explain how this is linked to overall long-term strategy.

For the CEO and direct reports, BlackRock expects there to be a sufficient subsequent holding period beyond the vesting of awards to ensure the long-term focus by management. Such a holding period applies post departure of such executives.

Shareholding requirements

BlackRock believes that executives should build over time a meaningful holding in the company's shares by retaining vested equities. We would normally expect an executive of an ASX200 company to hold one times salary in vested shares and the CEO to hold two times salary.

Performance measures

There are many types of performance measures that can be used in a long-term incentive plan. BlackRock expects to see a relationship between the performance measures chosen, the type of industry in which the company operates, the key value drivers of the business and overall long-term strategy. The remuneration report or explanatory notes should contain clear rationale regarding why the particular performance measures were chosen and how they relate to long-term strategy and key value drivers of the business.

Performance hurdle and calibration

The minimum performance hurdle that is required to be achieved before performance based awards vest should involve above median performance. Maximum awards should only vest when there has been exceptional performance. Where

accounting measures such as earnings per share or return on equity have been used, the remuneration report should provide a clear explanation of the hurdle range that has been selected and why the range represents exceptional performance.

BlackRock believes that the use of cliff vesting (which involves a significant portion of awards vesting at a single measurement point) should be avoided unless a cogent explanation for this type of structure can be provided. In BlackRock's view awards should vest on a sliding scale to ensure management is not focused on a single performance hurdle.

Multiple performance measures

BlackRock believes that the use of multiple performance measures in a long-term incentive plan will avoid focusing management on a single performance measure.

Remuneration vehicle

The remuneration vehicle is the form in which remuneration is delivered to the executive. For example it may be in cash or salary sacrifice, a type of option or other equity based vehicle.

Risk differentials of remuneration vehicles

Remuneration vehicles have differing risk profiles for the plan participant. For example, remuneration to be received in cash has little risk when compared with options granted with an exercise price equal to the market price of the security at grant date.

The use of remuneration vehicles such as options provides leveraged returns and accordingly, may increase management's appetite for risk beyond that expected by shareholders. Remuneration committees should ensure that the use of a particular remuneration vehicle will not result in excessive risk taking by management and should be aligned with the risk profile of the particular company and expectations of shareholders.

Options

Where options are used as the remuneration vehicle, BlackRock expects comprehensive disclosure regarding the rationale for setting the exercise price. Any proposal relating to option grants should provide full details of the valuation of the grant at the date of grant.

Index linked options

Index linked options link the exercise price to the movement of a particular index and avoid executives achieving windfall gains due to market movements and also can maintain an incentive when the overall market has a significant negative correction. Index linked options are suitable only where the company has a suitable peer group of companies in order to establish an appropriate index.

Zero exercise price options (Zepo's)

Recent changes in Australian taxation legislation have made the use of Zepo's more attractive for executive remuneration plans. Zepo's have lower risk than traditional market priced options.

Disclosure

BlackRock expects the remuneration report to provide a sound explanation for the remuneration vehicle selected and how it is consistent with strategy.

Number of securities to be granted as part of performance based remuneration

Companies should use a consistent approach when determining the number of securities to be granted as part of an LTI. BlackRock is supportive of companies using a fair value that excludes any discount for vesting probability. This approach provides shareholders with a guide as to the maximum value of the grant based on the share price at grant date.

When performance based securities have been granted under an LTIP during the reporting year, the remuneration report should disclose the maximum number of securities granted to each KMP's (based on achieving maximum performance) as well as the number of securities to be granted when threshold performance is achieved.

BlackRock also prefers performance based equity grants to KMP's to be valued and granted immediately after the AGM as information regarding the prior year results and also released as part of the AGM should be embedded in the share price immediately after the AGM.

BlackRock does not support the use of valuing securities based on accounting standard AASB2. This is due to the fact the accounting standard does not value securities subject to different performance measures on a consistent basis.

Where the methodology for valuing securities for the purpose of determining the quantum of securities to be issued has been changed a cogent explanation should be provided in either the explanatory notes accompanying the proposal or the remuneration report.

BlackRock will consider voting against proposals to grant securities to an executive and/or the remuneration report where, without explanation, the methodology for valuing the securities has not been disclosed or has changed, and/or the valuation process results in an inappropriate number of securities to be issued.

Types of performance measures

BlackRock believes the remuneration committee is in the best position to determine the appropriate performance measures to be used in a long-term incentive plan. As discussed above, BlackRock expects the remuneration report to clearly state why particular performance measures have been used and the link between those measures and the company's long-term strategy and the performance conditions should be structured to prevent undue risk taking by executives.

The performance measures discussed below do not represent a finite list. BlackRock will consider other performance measures not discussed below on a case by case basis. In each case BlackRock will be looking for an explanation of why the measure was used, its link to long-term strategy and the potential impact of the measure on the behaviour of management. BlackRock will support any long-term performance measure where it is clear it will influence the behaviour of executives to act in the long-term interests of shareholders.

Share price targets/absolute total shareholder return (TSR)

BlackRock does not generally support performance measures that are based on share price targets or absolute TSR as such measures are more influenced by market forces than the contribution of the executives. These measures may also result in executives being rewarded inappropriately as a result of a general rise in the market. The opposite can also occur when there is a significant negative correction in the market and executives who may have made a considerable contribution to the long-term sustainable growth of the company miss out on awards. This situation can lead to issues relating to retention and executive morale.

Relative TSR

In BlackRock's view relative TSR is only useful at measuring the performance of management when an appropriate peer group can be found. Given the size and depth of the Australian market it is often difficult to find an appropriate peer group with which to measure relative performance.

The use of relative TSR against a general index (e.g. S&P/ASX 200) in BlackRock's view is not a particularly good measure as a company's TSR is measured against others which have differing business cycles, risk profiles and many other variables that influence performance. Management has very little influence over relative TSR.

Other relative measures may be appropriate if they reflect natural growth in the markets in which the company operates.

Accounting measures

Accounting measures are generally transparent and easily understood by shareholders, particularly when statutory earnings per share (EPS) has been used.

Some companies use “underlying” or “adjusted” accounting measures such as earnings per share. These measures are appropriate where there is an element of revenue or expense which may be outside the influence of management. In cases where an adjusted accounting measure has been used BlackRock expects disclosure of the rationale behind the use of an adjusted measure as well as disclosure of the reconciliation between statutory accounting measures and the adjusted measure. Companies using EPS should also exclude the potential short term effects of share buybacks and acquisitions.

When assessing how challenging an accounting based performance hurdle is, BlackRock will take into account analyst consensus forecasts at the time the hurdle was set.

Return on equity/capital employed

Capital efficiency measures are appropriate where significant investment is required and the business is capital intensive. If capital return performance measures are used, there must be clear disclosure of the capital controls in place to avoid excessive leverage and hence risk.

Economic profit

Economic profit measures the value created in excess of the company’s overall cost of capital. This measure is valid for capital intensive industries as it ensures that the cost of that capital is covered before executive awards are achieved. If used there must be assurance that there are adequate board controls to review judgments exercised for assessing the cost of capital.

Milestone or operational measure

Milestone or operational performance hurdles can encourage alignment of management’s actions with the company’s long-term strategy. Where milestone performance measures are used BlackRock expects full disclosure of the performance measure and the performance hurdle. BlackRock does accept that some milestone performance hurdles may contain commercially sensitive information. In such cases, BlackRock expects retrospective disclosure of performance against those measures, the hurdles and the percentage of awards vesting.

BlackRock will assess the appropriateness or otherwise of milestone performance measures on a case by case basis. BlackRock will take into account the type of management behaviour that such measures may encourage. For example, if the milestone is to produce a certain quantity of ore in a particular period, BlackRock would have concerns that this could encourage production to meet the milestone measure but ignores costs of production. Such behaviour is not, in BlackRock’s view, in the long-term interests of shareholders.

Earnings before interest, tax, depreciation and amortization (EBITDA)

BlackRock does not generally support the use of EBITDA as a long-term performance measure unless a cogent explanation can be provided. EBITDA can be increased in the medium term through acquisitions that ignore debt and quality of acquisitions. An EBITDA measure can encourage management to take undue risk in growing EBITDA through purchasing assets that may not provide long-term value to shareholders and can increase risk through excessive debt. The result in the medium term is increased EBITDA however the longer term outcome may be undue increased risk to shareholders due to non-performing assets and increased debt.

Incorporation of risk factors in remuneration structures

As discussed above, pursuant to ASX Corporate Governance Council’s Principle 7 listed companies should identify, assess, monitor and manage material business risk. The outcome of sound risk management is sustainability of earnings in the long-term.

BlackRock expects companies to explain the impact of the incentive framework on risk. If controls are not in place to encourage sustainable performance an explanation should be provided as to why.

Where management has failed to manage identified risks, BlackRock expects to see such failures reflected in the amount of performance-based remuneration that vests in the performance period where the risk management failure occurred. Where there has been a failure to manage risk, which has resulted in the loss of shareholder value and this has not reduced performance based pay, we expect a cogent explanation. If the specific remuneration structure does not incorporate risk then the remuneration committee should have discretion to reduce the level of performance based pay when there has been a failure by management to manage key risks.

The type of risks that BlackRock expect to see taken into account in remuneration structures would include, but are not limited to, safety and implementation and maintenance of information technology systems.

Where an earnings based performance measure has been used, BlackRock expects companies to disclose how identified risks are managed and not subject to cost cutting in order to increase the performance measure and accordingly performance based pay and leave the company exposed to unmanaged risks.

Treatment of dividends

Where an equity based remuneration vehicle has been used it is important for dividends to be taken into account in the remuneration structure. This is because management should not be influenced by the structure of their remuneration in respect of their capital management decisions. For example, if executives received options which have an exercise price equal to the market price at grant date, one way of increasing the value of the options is to not provide dividends during the performance period or undertake share buy-backs as an alternative to paying dividends.

Where an equity based remuneration vehicle has been used, dividends paid during the performance period should be held in trust until the equity vests and paid to executives on a pro rata basis in accordance with the equity that vests. The value of dividends should be disclosed as a component of remuneration.

To not take dividends into account in equity based incentive schemes may lead to sub-optimal capital management decisions.

Sign-on awards

In cases where a newly appointed executive has forgone remuneration from a past employer in order to take on a new role, a company may reimburse the new executive by way of sign-on remuneration. Where such remuneration has been made BlackRock expects full disclosure of the amount paid. BlackRock also prefers such remuneration be made in shares or similar at-risk vehicles and should be aligned with the recruiting company's strategy and metrics; vesting can be aligned with the executive's prior employment cycle.

One-off awards

Any one-off award should be based on very exceptional circumstances that would need to be detailed by the company. Without adequate explanation, BlackRock will usually oppose one-off awards linked to transactions as these awards could create an incentive for executives to undertake unnecessary (and at times value-destroying) acquisitions. Moreover, any merger or acquisition entails significant risks that investors will have to face for a number of years after the transaction. BlackRock will also usually vote against retention awards as, in our experience, they are not an effective tool to retain employees.

Retention payments

Where an executive's contract has provision for a retention payment, the remuneration report should provide full disclosure of such commitments. BlackRock prefers to see retention payments with an element of equity.

Termination payments

Executive contracts should not be structured in such a manner as to allow for large payouts as a consequence of poor and inadequate performance.

Currently executive contracts can contain termination provisions that allow for a termination benefit of up to the value of 12 months base remuneration without seeking shareholder approval. BlackRock will assess on a case by case basis proposals which seek shareholder approval for a termination benefit that exceeds the value of one year's base remuneration.

A number of companies have sought shareholder approval for the early vesting of equity under an executive remuneration plan to be excluded from the calculation of any termination benefit. BlackRock prefers that any unvested equity vest in the usual time frame for good leavers (see further below).

Post-employment and good leavers

BlackRock encourages incentive plans that ensure executives remain accountable for their legacy in the event they leave. Providing an executive is a good leaver, BlackRock would expect that long-term plans, in particular, remain "live", and are tested as usual at the end of the stated performance period. It is believed that such arrangements ensure the selection and development of effective successors.

From BlackRock's perspective, a good leaver is one who leaves the company due to: retirement, personal circumstances preventing the executive from fulfilling the role, change in control/strategy when the post becomes redundant or the incumbent executive's skills are not aligned. A bad leaver is one which leaves the company due to forced or agreed departure due to inadequate performance or behaviour of that individual.

Retesting

In BlackRock's view, a well-structured long-term incentive plan that has well chosen performance measures, appropriate performance hurdles and involves annual grants of equity should not require retesting provisions.

However, BlackRock will assess retesting provisions on a case-by-case basis. Generally, BlackRock does not support a regime of continual retesting as this may distract management from a longer term focus.

Hedging of securities

Given the nature of the role of KMP's and their access to information, in BlackRock's view it is inappropriate for executives to enter into hedging arrangements relating to their direct and indirect shareholdings as well as any unvested performance based equity remuneration.

As mentioned above, in certain circumstances BlackRock believes KMP's should disclose shares subject to margin calls.

Dilution

To ensure that equity based remuneration plans operate in a way that benefits both employees and shareholders, BlackRock expects to see a limit on the amount of dilution that can occur across all plans that a company may have. In the case of companies which have a mature business, BlackRock expects to see a total limit on dilution across all plans, including issued securities subject to plan rules, not exceeding 5% of total issued capital. Companies wanting a limit in excess of 5% should seek shareholder approval.

For companies in an exploration/evaluation/development phase which have a high cash burn rate, providing remuneration to employees, executives and non-executive directors in the form of equity is a means of preserving cash, a limit of up to 10% of issued capital is acceptable.

Disclosure of equity based LTI's

To allow BlackRock to compare remuneration practices of the companies in which we invest we expect disclosure, in respect of each KMP, of the fair value at grant date of all equity based remuneration grants, excluding any discounts for the probability of vesting.

Requests for approval of equity grants

ASX Listing Rule 10.14 requires shareholder approval of equity grants that are dilutive to shareholders. The explanatory notes accompanying such proposals should provide full details of the director's remuneration package including fixed remuneration, short and long-term incentives as well as termination provisions. Without this information BlackRock may be unable to support the proposal. The explanatory notes should also disclose the impact on the structure of the executive's remuneration if the proposal is not passed at the shareholder meeting i.e. would an equivalent amount be delivered in an alternate pay vehicle such as cash.

Approach to assessing remuneration policies of smaller companies

Listed on the ASX are companies that are in an exploration/evaluation/development phase. Often the only revenue is interest and such companies may have a high cash burn rate. It is unreasonable to expect these companies to have remuneration structures that incorporate accounting performance measures and relative return measures. BlackRock will assess the remuneration policies of these companies on a case by case basis with the focus taking into account the particular phase the company is in, the quantum of remuneration paid to executives and non-executive directors and the potential for unreasonable dilution of shareholders' equity. As these companies move into a production phase BlackRock expects to see remuneration practices to evolve to reflect the change in operational status of the company.

Voting on remuneration reports

BlackRock assesses remuneration reports on a case by case basis when determining whether or not to provide support. BlackRock will take into account all issues described above and how the structure will encourage management to behave in a manner which is in the long-term interests of shareholders. BlackRock will not support remuneration reports where the outcome of the remuneration structures could result in rewards for poor performance and/or there is no link between remuneration structures and the company's stated strategy.

BlackRock will endeavour to contact companies where we believe voting against the remuneration report is warranted.

Environmental and social issues

We believe that well-managed companies will deal effectively with material ESG factors relevant to their businesses. As stated throughout this document, governance is the core structure by which boards can oversee the creation of sustainable long-term value —appropriate risk oversight of environmental and social ("E&S") considerations stems from this construct.

Robust disclosure is essential for investors to effectively gauge companies' business practices and strategic planning related to E&S risks and opportunities. When a company's reporting is inadequate, investors, including BlackRock, will increasingly conclude that companies are not adequately managing risk. Given the increased understanding of material sustainability risks and opportunities, and the need for better information to assess them, BlackRock will advocate for continued improvement in companies' reporting and will increasingly hold management and/or directors accountable where disclosures or the business practices underlying them are inadequate.

BlackRock views the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the standards put forward by the Sustainability Accounting Standards Board (SASB) as appropriate and complementary frameworks for companies to adopt for the disclosure of financially material sustainability information. While the TCFD framework was crafted with the aim of climate-related risk disclosure, the four pillars of the TCFD — Governance, Strategy, Risk Management, and Metrics and Targets — are a useful way for companies to disclose how they identify, assess, manage, and oversee a variety of sustainability-related risks and opportunities. SASB's industry-specific guidance (as identified in its materiality map) is beneficial in helping companies identify key performance indicators (KPIs) across various dimensions of sustainability that are considered to be financially material and decision-useful within their industry.

Accordingly, we ask companies to:

- Disclose the identification, assessment, management, and oversight of sustainability-related risks in accordance with the four pillars of TCFD; and

- Publish SASB-aligned reporting with industry-specific, material metrics and rigorous targets¹.

Companies may also 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 specific initiatives on managing specific operational risks may be useful. Companies should disclose any global 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.

Climate risk

BlackRock believes that climate change has become a defining factor in companies' long-term prospects. We expect every company to help their investors understand how the company may be impacted by climate-related risk and opportunities, and how they are considered within strategy. Specifically, we expect companies to articulate how they are aligned to a scenario in which global warming is limited to well below 2°C and is consistent with a global aspiration to reach Net Zero GHG emissions by 2050. The global aspiration is reflective of aggregated efforts; companies in developed and emerging markets are not equally equipped to transition their business and reduce emissions at the same rate—those in developed markets with the largest market capitalization are better positioned to adapt their business models at an accelerated pace. Government policy and regional targets may be reflective of these realities.

The public and private sectors have roles to play in aligning greenhouse gas reduction efforts with targets based on science, where available, to curb the worst effects of climate change and reach the global goal of carbon neutrality by the mid-century. Companies have an opportunity to utilize and contribute to the development of current and future low-carbon transition technologies, which are an important consideration for the rate at which emissions can be reduced. We expect companies to disclose how they are considering these challenges, alongside opportunities for innovation, within their strategy and emissions reduction efforts.

Key stakeholder interests

Given our expectation that companies operate in long-term shareholders' interests to create sustainable value and fulfill their purpose, BlackRock believes that companies should take due account of their key stakeholders' interests. It is for each company to determine its key stakeholders based on what is material to its business, but they are likely to include employees, business partners (such as suppliers and distributors), clients and consumers, government and regulators, and the communities in which they operate, as well as investors.

Having regard to the interests of key stakeholders recognizes the collective nature of long-term value creation, and the extent to which each company's prospects for growth are tied to its ability to foster strong sustainable relationships with those stakeholders. Companies should articulate how they address adverse impacts that could arise from their business practices and affect critical business relationships with their stakeholders. We expect 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 impacts. The maintenance of trust within these relationships is often equated with a company's social license to operate.

To ensure transparency and accountability, companies should report on how they have identified their key stakeholders and considered their interests in business decision-making, demonstrating the applicable governance, strategy, risk management, and metrics and targets. This approach should be overseen by the board, whose job it is to ensure that the approach taken is informed by and aligns with the company's purpose.

In this context, we seek to understand a company's approach and commitment to fostering a diverse workforce and inclusive workplace culture, which contributes to business continuity, innovation, and long-term value creation. As an important component of strategy, we expect boards to oversee human capital management. Appropriate disclosures should be provided to inform investors' understanding of how companies are seeking to establish robust human capital management practices, including their actions and targets around diversity, equity and inclusion. When a company's

¹ See our [commentary](#) on our approach to engagement on TCFD and SASB aligned reporting for greater detail of our expectations.

reporting is inadequate, we will increasingly conclude that companies are not adequately managing such issues and may hold management and / or directors accountable.

Corporate political activities

Companies may engage in certain political activities, within legal and regulatory limits, in order to influence public policy consistent with the companies' values and strategies. These activities can also create risks, including: the potential for allegations of corruption; reputational risk associated with a candidate, party, or issue; and risks that arise from the complex legal, regulatory, and compliance considerations associated with corporate political spending and lobbying activity. Companies that engage in political activities should develop and maintain robust processes to guide these activities and mitigate risks, including board oversight. When presented with shareholder proposals requesting increased disclosure on corporate political activities, BlackRock will evaluate publicly available information to consider how a company's lobbying may impact the company. We will also evaluate whether there is alignment between a company's stated positions on policy matters material to its strategy and the positions taken by industry groups of which it is a member. We may decide to support a shareholder proposal requesting additional disclosure if we identify a material misalignment. Additional detail can be found in our commentary on political contributions and lobbying disclosures.

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 environmental and social risks.

When assessing shareholder proposals, we evaluate each proposal on its merit, with a singular focus on its implications for long-term value creation. We consider the business and economic relevance of the issue raised, as well as its materiality and the urgency with which we believe it should be addressed. We take into consideration the legal effect of the proposal, as shareholder proposals may be advisory or legally binding depending on the jurisdiction. We would not support proposals that we believe would result in over-reaching into the basic business decisions of the issuer.

Where a proposal is focused on an issue that we agree needs to be addressed and the intended outcome is consistent with long-term value creation, we will look to the board and management to demonstrate that the company has met the intent of the request made in the shareholder proposal. Where our analysis and / or engagement indicate a need for improvement in the company's approach to the issue, we will support shareholder proposals that are reasonable and not unduly constraining on management. Alternatively, or in addition, we may vote against the re-election of one or more directors if, in our assessment, the board has not responded sufficiently or with an appropriate sense of urgency.

General corporate governance matters

Amendments to constitutions

These proposals vary from routine changes to reflect up-dates to the Corporations' Act, Listing Rules and other regulatory revisions to significant changes that substantially change the governance of the company. BlackRock will review such proposals on a case by case basis and support those that we believe are in the best interests of shareholders. We will not support proposals that will result in reducing the rights of shareholders.

Bundled proposals

We believe that shareholders should have the opportunity to review substantial governance changes individually without having to accept bundled proposals. Where several measures are grouped into one proposal, BlackRock may reject certain positive changes when linked with proposals that generally contradict or impede the rights and economic interests of shareholders.

Reincorporation

Proposals to reincorporate from one state or country to another are most frequently motivated by considerations of anti-takeover protections or cost savings. Where cost savings are the sole issue, we will typically favour reincorporation. In all instances, we will evaluate the changes to shareholder protection under the new charter/articles/by-laws to assess whether the move increases or decreases shareholder protections. Where we find that shareholder protections are diminished, we will support reincorporation if we determine that the overall benefits outweigh the diminished rights.

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