Proxy voting guidelines for Latin American securities

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BlackRock

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These guidelines should be read in conjunction with BlackRock's Global Corporate Governance and Engagement Principles, which are available on-line at www.blackrock.com

Introduction

These voting guidelines cover issues specific to certain Latin American markets in which BlackRock is a large investor. If you are interested in our approach to governance in a market that is not specifically addressed in this document, you can refer to BlackRock's Global Corporate Governance and Engagement Principles, which provide a broad overview of our philosophy regarding governance. We also invite our portfolio companies to reach out to BlackRock's Corporate Governance team directly to discuss any questions regarding governance issues.

These guidelines are intended only to give an indication of how we are likely to vote. We assess voting issues on a case-by-case basis, taking into account the circumstances of the company, and our voting decisions at any individual shareholder meeting may diverge from the general approach described in these guidelines.

BlackRock expects companies to observe the relevant laws and regulations of their market, as well as local guidelines on corporate governance best practice. Local governance best practice codes may be underpinned by an approach that allows companies not to adopt recommended practices as long as they explain why they have not. BlackRock agrees that individual companies may have good reasons for pursuing an atypical approach to governance, and asks companies to frame their explanations for such alternative approaches in the context of why not complying with the recommended practices better serves shareholders' long-term interests.

In many Latin American markets, companies have historically been controlled by a single owner or a small group of owners, who have turned to the public equity markets as a source of capital without ceding control of the company to the owners of publicly traded shares. In Latin America, these closely held firms are sometimes viewed as more reliable investment opportunities than companies with a dispersed ownership base (sometimes referred to as "dispersed companies" or "ownerless companies") because the controlling shareholder can be addressed directly regarding questions of corporate strategy and is known to have a level of long-term commitment to the performance of the company.

As investors from other markets have increasingly viewed publicly traded companies in Latin America as an opportunity for portfolio growth and diversification, BlackRock encourages all issuers to adopt disclosure and operational processes to facilitate the participation of foreign investors in the development of governance policy and, specifically, at meetings of shareholders. Such changes might include: publishing the shareholder meeting circular at least 45 days prior to the meeting taking place; providing biographical information regarding director candidates as part of the shareholder meeting information circular; ensuring that the Investor Relations team includes individuals who speak languages commonly used by the company's foreign shareholders; or providing dedicated seats on the board for minority investors.

Country-specific considerations

Brazil

The Sao Paulo stock exchange or BOVESPA currently offers four listing levels (basic, Nivel 1, Nivel 2 and the Novo Mercado) that require increasingly stringent corporate governance standards. Additionally, all Brazilian companies follow, on a comply-or-explain basis, The Code of Good Corporate Governance administered by the Comissão de Valores Mobiliários or CVM (the counterpart of the U.S. Securities and Exchange Commission). Furthermore, The

Brazilian Institute of Good Corporate Governance (IBGC) has published a best practices code for voluntary adoption that aims to strengthen governance standards in the market.

While increasing capital from foreign investors has recently diversified Brazilian companies' ownership base and increased the average free float, corporate ownership typically remains highly concentrated. Traditionally, shareholder meetings have relied on the physical presence of shareholders. This characteristic explains why information is often not available in advance of the meeting and the market's overall relative lack of disclosure.

Boards and directors

The Brazilian Corporations Law mandates a minimum of three directors, while the CVM recommends five to nine directors with a minimum of two directors having expertise in finance and accounting. The boards of companies listed on the Novo Mercado are required to have at least 20% of their directors be independent. The IBGC code recommends boards to have at least a majority of independent directors. The Brazilian Corporations law allows minority and preferred shareholders present at the meeting to appoint one member each to the board of directors.

In addition to the board of directors, companies typically have an executive officer board and a fiscal council that is responsible for overseeing audit-related board functions. Brazilian companies generally do not have audit or other board committees.

Shareholders are often presented with the directors for election bundled on a slate. Candidate information is not necessarily available until the shareholder meeting. Minority shareholder representatives to the board are most often identified by minority shareholders at the shareholder meeting; as a result, shareholders voting via proxy may not be able to meaningfully identify their preferred candidates. In the event that the names of the board candidates are not available ahead of the meeting, we may evaluate the current board composition and assess any specific problems or concerns at the board or the company.

In recognition of local market practices, BlackRock generally votes to support director slates in Brazil, even in the absence of specific information regarding their identities. We are likely to oppose director slates in situations where we identify a specific concern with the slate of directors.

Auditors and audit-related issues

Public companies in Brazil have an external auditor that is selected by the board of directors and not typically ratified by shareholders. Auditor compensation is typically not disclosed.

Capital structure, mergers, asset sales and other special transactions

In a merger, the acquiring company must name risk assessment companies to evaluate the assets of the target company. The approval of the statutory report does not preclude shareholders' right to dissent. Shareholders generally benefit from preemptive rights on new share issuances, regardless of share class.

According to the Corporations Law, companies must present financial statements to shareholders for approval at least one month in advance of the annual meeting.

BlackRock expects companies to adhere to the Corporations Law with regards to dividend distribution and payout ratios. Typically, 5% of the company's income needs to be allocated to the company's legal reserve (as long as it is less than 20% of the outstanding capital) and at least 25% of a company's adjusted net income must be distributed as dividends. If BlackRock concludes that a company has failed to appropriately allocate income to shareholders, BlackRock may vote against a proposal seeking approval of income allocation and dividends.

Proposals to issue additional shares, establish new share classes, or engage in a debt financing arrangement will be assessed on a case-by-case basis. BlackRock's decision will be guided by the information provided by the company, the company's current share structure and BlackRock's assessment of whether the changes to the capital structure appear to be in the best long-term interests of shareholders. In the absence of sufficient disclosure for BlackRock to understand the purposes of the proposed changes to the capital structure, BlackRock may be unable to support management's proposal.

Similarly, mergers, asset sales, and other special transactions are assessed based on the specific circumstances of the company and the details of the proposed transaction.

Remuneration and benefits

While local best practice standards call for the disclosure of compensation for CEOs, directors, and auditors, companies rarely disclose the proposed compensation levels prior to the shareholder meeting. When companies do provide data regarding compensation, they seldom disclose compensation levels of individual executive officers, preferring instead to disclose the aggregate compensation levels of both directors and executive officers. Shareholders are not asked to approve remuneration of executives.

Chile

Various best practice codes and regulations inform the corporate governance of companies in Chile: The 2000 Tender Offers and Corporate Governance Law ("Ley de OPAS"); the 2001 First Capital Market law ("MKI"); the 2008 Second Capital Markets Law ("MKII"); and the 2009 Law 20,382. Companies must disclose their vote results on their websites.

In Chile, the predominant forms of corporate structure are business groups or conglomerates. Most publicly traded companies have a controlling shareholder or a group of shareholders acting in concert. While concentrated and pyramid structures are common, Chilean institutional investors, primarily pensions funds, are actively influencing corporate governance in this market in an effort to protect minority shareholder rights.

Boards and directors

Most companies have a unitary board structure and directors generally serve two year terms. The minimum number of board seats is seven, although the board is often elected as a slate. Under Chilean law, companies are not required to have any committees; however, if a company's market capitalization exceeds $60M with a free float of at least 12.5%, they are required to have at least one independent director and an audit committee composed of at least three board members, a majority of whom must be independent.

Chilean investors owning a minimum of 1% (and a maximum of 10%), may nominate independent directors to the board. For foreign investors, however, disclosure regarding matters to be addressed at the shareholder meeting is relatively poor and detailed information regarding director candidates is generally not available in advance of the meeting.

In recognition of local market practices, BlackRock generally votes to support director nominees in Chile, even in the absence of specific information regarding their identities. We are likely to oppose individual board nominees or slates in situations where we identify a specific concern with the individual director or slate of directors.

Auditors and audit-related issues

External auditors are required to be independent by standards defined in the Code of Ethics and Auditing Standards of the Association of Auditors. Furthermore, auditors must not own, directly or indirectly, more than 3% of the total equity of an issuer, nor should revenue from any one company exceed more than 15% of the auditor's total revenue.

BlackRock generally supports ratification of auditor proposals, unless there is evidence of auditor misconduct.

Capital structure, mergers, asset sales and other special transactions

Chilean companies are allowed to create multiple classes of stock with different voting rights for each class. Most companies have a single class share structure. Nearly all Chilean companies have a controlling shareholder. Mergers and acquisitions, reorganizations, private placements and liquidations all require supermajority vote approval, to protect the minority shareholders' interests. Related transactions must be: preapproved by a majority of uninterested directors; in the best interest of the company; and put to shareholders for a vote.

Companies must present financial results and director and auditor reports to shareholders for approval at the annual meeting. These reports typically include a letter from the board, balance sheet, and income statements.

BlackRock expects Chilean companies to adhere to market standards with regards to dividend distribution and payout ratios, and issuers are generally required by law to pay out at least 30% of net income as cash dividends. BlackRock typically supports payout ratios of 30% or more, and will review the payout levels of the past two years if the ratio has fallen below this level. If BlackRock concludes that a company has failed to appropriately allocate income to shareholders, BlackRock may vote against a proposal seeking approval of income allocation and dividends.

Proposals to issue additional shares, establish new share classes, or engage in a debt financing arrangement will be assessed on a case-by-case basis. BlackRock's decision will be guided by the information provided by the company, the company's current share structure and BlackRock's assessment of whether the changes to the capital structure appear to be in the best long-term interests of shareholders. In the absence of sufficient disclosure for BlackRock to understand the purposes of the proposed changes to the capital structure, BlackRock may be unable to support management's proposal.

Similarly, mergers, asset sales, and other special transactions are assessed based on the specific circumstances of the company and the details of the proposed transaction.

Remuneration and benefits

In Chile, public companies must disclose director remuneration in the Annual Report with separate figures for travel, representation and other expenses. As a result, shareholders have material with which to evaluate director compensation proposals.

Shareholders are not asked to approve remuneration of executives; however, the aggregate compensation figure for all officers may be disclosed.

General corporate governance matters

Amendment of articles generally requires the approval of 75% of voting stock at a shareholder meeting. BlackRock will generally vote against a proposal to amend articles or bylaws unless sufficient information has been provided for investors to reasonably understand the implications of the proposal.

Colombia

Various best practice codes and regulations inform the corporate governance of companies in Colombia. Best practice codes include: the Confecamaras code (2001); the SME's Code of Corporate Governance (2003); the Andean Code (2004); and the new Colombian Corporate Governance Code (2007). Regulations include: Law 222 (1995); Resolution 275 (2001); and Law 964 (2005).

Boards and directors

Boards of directors in Colombia must comprise a minimum of five directors and a maximum of ten; 25% of directors must be independent. The separation of chairman and CEO positions is mandated by law. Common impediments to director independence as considered by local market practice may include the receipt of director compensation for services provided other than serving on the board, charitable payments made to non-profit organizations with which a director is involved, and interlocking directorships.

An Audit Committee is required, consisting of a minimum of three directors. The Audit Committee must include all of the independent directors on the board, and the chair of the Audit Committee must be independent. It is uncommon for companies to adopt other board committees in Colombia, although local best practice standards call for the establishment of a Human Resources Committee and a Corporate Governance Committee.

Shareholders are presented with the directors for election bundled on a slate. Candidate information is not typically available until the shareholder meeting. In the event that the names of the board candidates are not available ahead of the meeting, we may evaluate the current board composition and assess any specific problems or concerns at the board or the company.

In some instances, Colombian companies may actively solicit institutional shareholders for director nominations in order to further minority investor representation.

In recognition of local market practices, BlackRock generally votes to support director slates in Colombia, even in the absence of specific information regarding their identities. We are likely to oppose director slates in situations where we identify a specific concern with the slate of directors.

Auditors and audit-related issues

Public companies in Colombia must have an external auditor that is elected by shareholders. Auditor compensation is typically not disclosed. In the absence of contentious allegations surrounding the financial accounts of the company, BlackRock generally votes for the appointment of the board-selected auditors.

Capital structure, mergers, asset sales and other special transactions

Corporate ownership and control is typically highly concentrated in Colombia. Common shares carry one vote per share. Share classes with multiple voting rights are not allowed, although preferred shares carrying no votes are allowed in the capital structure. Shareholders have preemptive rights on new share issuances, regardless of share class. Shareholder approval is required for share issuances without preemption. Companies typically seek approval for creation of a pool of capital for general issuances.

Colombian companies must present annual accounts and statutory reports to shareholders for approval at the annual meeting. These reports typically include a chairman’s letter, balance sheet, income statement, and explanatory notes in accordance with Colombian GAAP.

BlackRock expects companies in Colombia to adhere to market standards with regards to dividend distribution and payout ratios. Typically, at least 50% of net income must be distributed as dividends. If BlackRock concludes that a company has failed to appropriately allocate income to shareholders, BlackRock may vote against a proposal seeking approval of income allocation and dividends.

Proposals to issue additional shares, establish new share classes, or engage in a debt financing arrangement will be assessed on a case-by-case basis. BlackRock’s decision will be guided by the information provided by the company, the company’s current share structure and BlackRock’s assessment of whether the changes to the capital structure appear to be in the best long-term interests of shareholders. In the absence of sufficient disclosure for BlackRock to understand the purposes of the proposed changes to the capital structure, BlackRock may be unable to support management’s proposal.

Similarly, mergers, asset sales, and other special transactions are assessed based on the specific circumstances of the company and the details of the proposed transaction.

Remuneration and benefits

Best practice calls for the disclosure of compensation policy for CEOs, directors, auditors and consultants. Shareholders are not asked to approve remuneration of executives.

General corporate governance matters

Amendment of articles requires the approval of 70% of votes cast at a shareholder meeting to consider such amendment. BlackRock will generally vote against a proposal to amend articles or bylaws unless sufficient disclosure allows for investors to reasonably understand the implications of the proposal.

Mexico

Various best practice codes and regulations inform the corporate governance of companies in Mexico: the New Mexican Securities Law (Ley del Mercado de Valores, or “New LMV”) (2005) and the Mexican Best Practice Code (last revised in 2010). The website of the main stock exchange (Bolsa Mexicana de Valores) provides quarterly financial reports and company information. However, detailed and up-to-date proxy statements remain extremely rare.

Most large companies in Mexico have been traditionally organized as business groups which are conglomerates owned and controlled by families and/or consisting of holdings companies that invest in other companies. Cross-shareholding and interlocking directorships are common.

Boards and directors

Most Mexican companies are governed by a single-tiered board of directors composed of both non-executive and executive members. Director biographies are infrequently available prior to the AGM. The board must have at least five and not more than twenty-one members, however, companies generally bundle director elections. Furthermore, these proposals also often include verification of the directors’ independence or approval of their remuneration. At least 25% of the board must be independent. Any shareholder who owns 10% of voting shares is entitled to appoint at least one board member. It is recommended that all companies establish an audit committee and a corporate/societal practices committee, both of which should be entirely comprised of independent directors. The latter committee is responsible for monitoring business strategy, ensuring against conflicts of interests and setting remuneration of directors. Companies are not required to establish a nominating or compensation committee. Shareholders are not permitted to cumulate their votes in this market.

In recognition of local market practices, BlackRock generally votes to support director nominees in Mexico, even in the absence of specific information regarding their identities. We are likely to oppose individual board nominees or slates in situations where we identify a specific concern with the individual director or slate of directors.

Auditors and audit-related issues

Companies often have an internal auditor to manage day to day operations. They must also have an external auditor nominated by the board. The audit committee certifies the objectivity of the auditor and approves their remuneration. There are restrictions on the types of non-audit services and the amount of revenue thus generated that an auditor can provide to the company and still be considered independent. Furthermore, the firm must be rotated every five years and go through a cooling off period of two years.

In the absence of contentious allegations surrounding the financial accounts of the company, BlackRock generally votes for the appointment of the board-selected auditors and approves their remuneration.

Capital structure, mergers, asset sales and other special transactions

Mexican companies are allowed to create multiple classes of stock with special rights. Capital structures include multiple voting share classes with special voting rights for each. Furthermore, shares with voting rights may be restricted to local investors. Mergers and acquisitions, reorganizations, private placements and liquidations all require shareholder approval; related party transactions do not. Due to the closely-held structure of most companies, such transactions are not generally hostile.

Companies must present financial results and director and auditor reports to shareholders for approval at the annual meeting. These reports typically include a letter from the board, balance sheet, and income statements.

BlackRock expects Mexican companies to adhere to market standards with regards to dividend distribution and payout ratios, and uses a 30% benchmark as a trigger for further analysis. BlackRock typically supports payout ratios of 30% or more, and will review the payout levels of the past two years if the ratio has fallen below this level. If BlackRock concludes that a company has failed to appropriately allocate income to shareholders, BlackRock may vote against a proposal seeking approval of income allocation and dividends.

Proposals to issue additional shares, establish new share classes, or engage in a debt financing arrangement will be assessed on a case-by-case basis. BlackRock’s decision will be guided by the information provided by the company, the company’s current share structure and BlackRock’s assessment of whether the changes to the capital structure appear to be in the best long-term interests of shareholders. In the absence of sufficient disclosure for BlackRock to understand the purposes of the proposed changes to the capital structure, BlackRock may be unable to support management's proposal.

Similarly, mergers, asset sales, and other special transactions are assessed based on the specific circumstances of the company and the details of the proposed transaction.

Remuneration and benefits

There is no disclosure of director remuneration, although there is a cap of 10% of net income payable to company founders. Shareholders are not asked to approve remuneration of executives.

General corporate governance matters

Amendment of articles generally requires the approval of 75% of voting stock at a shareholder meeting. BlackRock will generally vote against a proposal to amend articles or bylaws unless sufficient disclosure allows for investors to reasonably understand the implications of the proposal.

Shareholders with at least 10% of voting shares have the right to call a special meeting.

Shareholder proposals are rare in Mexico.

Peru

The Peruvian Securities Commission (CONASEV) has established the Principles of Good Corporate Governance for Peruvian Corporations (2002). Companies are encouraged to disclose information regarding shareholder structure, director independence, board committees and remuneration.

Under Peruvian Capital Market Regulations, listed companies are not required to elect independent directors, establish committees, or disclose substantial information. In practice, disclosure regarding directors and their independence is uncommon. A 2010 report by CONASEV indicated that approximately one out of four Peruvian listed companies did not have any independent directors, and that less than half of listed companies had any committee structure.[1] Companies are primarily organized as financial and industrial conglomerates owned or controlled by families, government and/or multinational companies. Although voting by proxy is allowed, voting by a show of hands is the primary mechanism utilized by shareholders and company-specific powers-of-attorney are required for third party representation of funds or trusts. This structure can prove challenging for international investors seeking to engage with companies through the proxy voting mechanism.

At annual shareholder meetings, Peruvian companies generally seek: 1) the election of directors; 2) approval of the remuneration of the directors; 3) approval of income allocation and dividends; 4) the election of the external auditor and approval of their remuneration; and 5) approval of financial statements and discharge of directors.

Boards and directors

BlackRock encourages Peruvian issuers to provide information regarding the names and biographies of director nominees simultaneous with the public announcement of the shareholder meeting. This practice is uncommon in Peru. In recognition of local market practices, BlackRock generally votes to support director nominees in Peru, even in the absence of specific information regarding their identities. We are likely to oppose individual board nominees or slates in situations where we identify a specific concern with the individual director or slate of directors.

In Peru, it is also acceptable for directors to appoint "substitute" or "alternate" directors who can stand in for "regular" directors in the event that the regular director is unavailable. BlackRock encourages boards that choose to utilize this structure to establish processes that ensure that substitute directors and/or alternate directors are sufficiently informed regarding the activities of the company to contribute effectively to the board's decision making process. Additionally, directors who are absent from a meeting should ensure that they are fully informed of all information shared at the meeting and all decisions taken in their absence.

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[1] CONASEV, "Grado de Cumplimiento de los Principios de Buen Gobierno Corporativo Durante el Ejercicio Económico 2010" (2010)

BlackRock generally votes to support proposals regarding director remuneration unless BlackRock determines that the proposed remuneration is inconsistent with director remuneration at similar companies, or otherwise concludes that the proposed remuneration is not in the best interest of shareholders. Information regarding director remuneration is usually presented to shareholders after the annual meeting has taken place, and is presented on an aggregated basis, rather than providing details of payments to each director.

BlackRock also generally votes in support of the discharge of the board and management, provided sufficient information has been provided to shareholders and there are no unresolved allegations regarding misconduct by the board or management.

Auditors and audit-related issues

In the absence of contentious allegations surrounding the financial accounts of the company, BlackRock generally votes for the appointment of the board-selected auditors and approves their remuneration. Consistent with regulatory requirements, BlackRock expects that auditors will be independent of the company. They should not hold a position with the company in the 24 months preceding the audit, should not have any direct or indirect financial interest in the company, and should not be related to directors or senior management of the company.

Capital structure, mergers, asset sales and other special transactions

BlackRock expects companies in Peru to adhere to market standards with regards to dividend distribution and payout ratios. Typically, at least 10% of net income must be distributed as dividends. Proposals seeking approval of income allocation and dividends are assessed in light of the company's profitability, any share repurchase program that the company may have initiated, and other circumstances driving the income allocation decisions of the board. If BlackRock concludes that a company has failed to appropriately allocate income to shareholders, BlackRock may vote against a proposal seeking approval of income allocation and dividends.

Proposals to issue additional shares, establish new share classes, or engage in a debt financing arrangement will be assessed on a case-by-case basis. BlackRock's decision will be guided by the information provided by the company, the company's current share structure and BlackRock's assessment of whether the changes to the capital structure appear to be in the best long-term interests of shareholders. In the absence of sufficient disclosure for BlackRock to understand the purposes of the proposed changes to the capital structure, BlackRock may be unable to support management's proposal.

Similarly, mergers, asset sales, and other special transactions are assessed based on the specific circumstances of the company and the details of the proposed transaction.

Remuneration and benefits

Although the Principles of Good Corporate Governance for Peruvian Corporations encourage disclosure of information regarding the remuneration of senior management, in practice, such information is generally not provided to shareholders. Shareholders are not asked to approve remuneration of executives.