BlackRock Investment Stewardship

Proxy voting guidelines for Latin American securities

Effective as of January 2021
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If you would like additional information, please contact:
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These guidelines should be read in conjunction with the BlackRock Investment Stewardship Global Principles.

Introduction

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.

The following issue-specific proxy voting guidelines (the “Guidelines”) are intended to summarize BIS' general philosophy and approach to ESG factors, as well as our expectations of directors, that most commonly arise in proxy voting for the region. These Guidelines are not intended to limit the analysis of individual issues at specific companies or provide a guide to how BlackRock will vote in every instance. They are applied with discretion, taking into consideration the range of issues and facts specific to the company, as well as individual ballot items.

BlackRock expects companies to observe the relevant laws and regulations of their market, as well as local guidelines pertaining to corporate governance best practices. Absent adherence to market standards and appropriate disclosure, we may not support particular ballot items.

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. These closely held firms are sometimes viewed as more reliable investment opportunities than companies with a dispersed ownership base (commonly known as “dispersed companies” or “ownerless companies”). This view has historically been upheld, as controlling shareholders can often be reached directly regarding questions of corporate strategy and they are aligned on long-term performance.

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 participation from international (non-domestic) investors. These best practices include: publishing the shareholder meeting circular and supporting materials, such as financial statements, at least 45 days prior to the meeting date; 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; and providing dedicated seats on the board for directors nominated by minority investors.

General vote considerations

Boards and directors

The effective 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 critical responsibilities.

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 effectively the board is identifying, managing, and mitigating risks.

Where we conclude that a board has failed to address or disclose one or more material issues within a specified timeframe, we may hold directors accountable or take other appropriate action in the context of our voting decisions.

Director elections

BlackRock encourages companies to publish information regarding the names and biographies of director nominees along with the public announcement of the shareholder meeting. When evaluating director elections, BlackRock will consider
local market practice(s), as well as timely disclosure, prior company engagement, director (and key committee) independence, and potential conflicts of interests. Although certain practices may be permitted in the market, we encourage boards to adopt practices that reflect governance best practices and that facilitate director effectiveness. When considering the election of directors, we may evaluate past performance, public board commitments, attendance record (a minimum of 75% of which they were required to attend), experience, and skills. Where we believe there are independence concerns or conflicts of interest, and to the extent that they may affect a director’s decision-making or unduly influence the board’s ability to provide independent oversight, we may oppose the re-election of specific director(s).

We may consider voting against directors when they serve on an excessive number of boards, which may limit his/her capacity to focus on each board’s requirements. The following identifies the maximum number of boards on which a director may serve, before he/she is considered to be over-committed:

<table>
<thead>
<tr>
<th>Public Company CEO, Executives or Fund Manager¹</th>
<th># Outside Public Boards²</th>
<th>Total # of Public Boards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Director A</td>
<td>✓</td>
<td>2</td>
</tr>
<tr>
<td>Director B</td>
<td></td>
<td>4</td>
</tr>
</tbody>
</table>

Directors should be presented on ballots for election independently and not grouped in single voting items (even when companies have classified boards), providing shareholders the right to vote individually for each candidate.

Additionally, when we find material governance failures, such as a lack of appropriate risk oversight, breaches of fiduciary responsibilities, or outsized retirement benefits for non-executive directors, we may also vote against the re-election of the board members and/or committee members responsible for these decisions.

## Board composition and effectiveness

We expect boards to be comprised of a diverse selection of individuals who bring their personal and professional experiences to bear in order to create a constructive debate of a variety of views and opinions in the boardroom. We recognize that diversity has multiple dimensions. In identifying potential candidates, boards should take into consideration the full breadth of diversity, including personal factors, such as gender, ethnicity, race, and age, as well as professional characteristics, such as a director’s industry, area of expertise, and geographic location. In addition to other elements of diversity, we encourage companies to have at least two women directors on their board. Our publicly available commentary explains our approach to engaging on board diversity.

We encourage boards to disclose demographics related to board diversity, including, but not limited to, gender, ethnicity, race, age, and geographic location, in addition to measurable milestones to achieve a boardroom reflective of multi-faceted racial, ethnic, and gender representation.

To the extent that we believe that a company has not adequately accounted for diversity in its board composition within a reasonable timeframe, we may vote against the nominating/governance committee for an apparent lack of commitment to board effectiveness.

We encourage boards to periodically renew their membership to ensure relevant skills and experience within the boardroom. To this end, regular performance reviews and skills assessments should be conducted.

¹ In this instance, “fund manager” refers to individuals whose full-time employment involves responsibility for the investment and oversight of fund vehicles, and those who have employment as professional investors and provide oversight for those holdings.

² In addition to the company under review
We typically defer to the board in setting the appropriate size; however, we may oppose boards that appear too small to allow for the necessary range of skills and experience or too large to function efficiently. BlackRock will also consider the average board tenure to evaluate processes for board renewal. We may oppose boards that appear to have an insufficient mix of short-, medium-, and long-tenured directors.

**Responsiveness to shareholders**

We expect boards to be responsive to shareholders and adequately address material concerns. Where shareholders’ concerns have not been duly addressed, or appropriate change has not been implemented, we may consider voting against the members of the board responsible for the issue of concern or other relevant ballot items.

**Shareholder rights**

BlackRock will generally vote against any proposal that may limit or hinder shareholder rights. Examples may include, the alteration of board size to prevent takeovers, poison pills introduced without shareholder approval, repricing of options that reward its holders for poor performance, excessive increase of capital without appropriate justifying disclosure, selective share repurchase programs designed to manipulate the stock price, and other unfavorable/unjustified items that may hinder shareholders’ rights.

**Financial results, auditors, auditor reports and audit related issues**

BlackRock recognizes the critical importance of financial statements to provide a complete and accurate portrayal of a company’s financial condition. We expect members of the audit committee or equivalent to be responsible for overseeing the management of the audit function within the board, as well as liaise with the independent auditor. We take particular note of cases involving significant financial restatements or ad hoc notifications of material financial weakness. The integrity of financial statements depends on the auditor being free of any impediments to acting as an effective check on management. To that end, we believe it is important that auditors are, and are seen to be, independent. Where the audit firm provides services to the company in addition to the audit, the fees earned should be disclosed and explained. Audit committees should have a procedure in place for annually assessing the independence of the auditor. BlackRock encourages all companies to have independent audit committees with at least one financial expert. In addition, it is best practice that the audit committee certifies the content of the financial/auditor reports.

**Mergers, acquisitions, asset sales, and other special transactions**

In assessing mergers, acquisitions, asset sales, or other special transactions, BlackRock’s primary consideration is the long-term economic interests of our clients as shareholders. Boards proposing a transaction need to clearly explain the economic and strategic rationale behind it. We will review a proposed transaction to determine the degree to which it enhances long-term shareholder value.

**Executive compensation**

BlackRock expects a company’s board of directors to put in place a compensation structure that incentivizes and rewards executives appropriately and is aligned with shareholder interests, particularly the generation of sustainable long-term value.

We expect the compensation committee to carefully consider the specific circumstances of the company and the key individuals the board is focused on incentivizing. We encourage companies to ensure that their compensation 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 compensation structures. We hold members of the compensation committee, or equivalent board members, accountable for poor compensation practices or structures.

BlackRock believes that there should be a clear link between variable pay and company performance that drives value creation. We are generally not supportive of one-off or special bonuses unrelated to company or individual performance.
Where discretion has been used by the compensation 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 compensation committees can help calibrate competitive pay; however, we are concerned when the rationale for increases in total compensation is solely based on peer benchmarking, rather than absolute 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. Compensation committees should guard against contractual arrangements that would entitle executives to material compensation for early termination of their contract. Finally, pension contributions and other deferred compensation arrangements should be reasonable in light of market practice.

**Environmental and social issues**

We believe that well-managed companies 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 the company is 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 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 forth by the Sustainability Accounting Standards Board (SASB) as appropriate and complementary frameworks for companies to disclose 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
- Publish SASB-aligned reporting with industry-specific, material metrics and rigorous targets

See our commentary on our approach to engagement on TCFD- and SASB-aligned reporting for greater detail of our expectations.

**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 risks and opportunities, and how they are considered within the company’s 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. In order to assess companies’ progress, BIS expects carbon-intensive companies to disclose explicit GHG emissions reduction targets.

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 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**

As a long-term investor, we believe that in order to deliver value for shareholders, companies should also consider their stakeholders. While stakeholder groups may vary across industries, they are likely to include employees; business partners (such as suppliers and distributors); clients and consumers; government and regulators; and the communities in which companies operate. Companies that build strong relationships with their stakeholders are more likely to meet their own strategic objectives, while poor relationships may create adverse impacts that expose a company to legal, regulatory, operational, and reputational risks and jeopardize their social license to operate. We expect companies to effectively oversee and mitigate these risks with appropriate due diligence processes and board oversight.

**Human capital management**

A company’s approach to human capital management is a critical factor in fostering an inclusive, diverse, and engaged workforce, 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.

We believe that clear and consistent reporting on these matters is critical for investors to understand the composition of a company’s workforce. We expect companies to disclose workforce demographics, such as gender, race, and ethnicity, alongside the steps they are taking to advance diversity, equity, and inclusion. Where we believe a company’s disclosures or practices fall short relative to the market or peers, or we are unable to ascertain the board and management’s effectiveness in overseeing related risks and opportunities, we may vote against members of the appropriate committee or support relevant shareholder proposals. Our commentary on human capital management provides more information on our expectations.

**Virtual meetings**

Shareholders should have the opportunity to participate in the annual and special meetings for the companies in which they are invested, as these meetings facilitate an opportunity for shareholders to provide feedback and hear from the board and management. While these meetings have traditionally been conducted in-person, virtual meetings are an increasingly viable way for companies to utilize technology to facilitate shareholder accessibility, inclusiveness, and cost efficiencies. We expect shareholders to have a meaningful opportunity to participate in the meeting and interact with the board and management in these virtual settings; companies should facilitate open dialogue and allow shareholders to voice concerns and provide feedback without undue censorship.

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3 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.
Other business

We oppose giving companies our proxy to vote on matters where we are not given the opportunity to review and understand those measures under consideration and carry out an appropriate level of shareholder oversight, often bundled as “other business” ballot items.

Country Specific Considerations

Argentina

Local regulation in Argentina applicable to listed companies provide certain principles of corporate governance as well rules, recommendations, and best practices. The Argentine Stock Exchange (MERVAL) has published a Corporate Governance Code (Código de Gobierno Societario or the "Code") that aims to increase transparency and encompass some regulations related to the independence of board of directors and disclosure of corporate management practices. While the Code is not mandatory for most companies, all public Argentine companies must disclose, on a comply-or-explain basis, whether they follow the principles and practices recommended by the Code. Banks and financial entities supervised by the Argentine Central Bank, as well as the government-owned companies, must comply with the applicable corporate governance regulations.

Boards and directors

As provided by Argentine laws, public companies must have a board of directors comprised of at least three members. The board size, quorum requirements, and vote standard are set forth in the company’s bylaws.

Public companies in Argentina are required to have an audit committee comprised of three or more members of the board of directors, the majority of whom must be independent, pursuant to the criteria established by the Comisión Nacional de Valores (CNV). Independence is established in relation to the company and the controlling shareholders; independent directors cannot be executives of the company. BlackRock expects companies to comply with these regulations and will vote against management/shareholder proposals that are not aligned with these regulations.

Public companies may also have a supervisory committee comprised of three members who must be lawyers or accountants. Their responsibilities include supervision of the administration of the company, attendance at all board and shareholder meetings, and, in general, company oversight from a legal perspective. According to the regulatory framework, all members of the supervisory committee must be independent.

Companies that have an audit committee may decide not to have a separate supervisory committee; in these cases, supervisory responsibilities are overseen by the audit committee. However, this structure must be adopted by an extraordinary shareholder meeting.

Members of the board of directors, the audit committee, and the supervisory committee are appointed by the ordinary shareholder meeting. Minimum quorum and vote requirements are stipulated by the law; however, the relevant company bylaws may provide higher requirements.

Any shareholder is entitled to nominate directors at the ordinary shareholder meetings, provided that the candidates meet the independence requirements of the CNV. Information and documents for consideration at the shareholder meeting must be presented at least 15 business days prior to the meeting.

In order to attend a shareholder meeting, the shareholder must be registered with the company’s Book of Attendance to Shareholders’ Meetings. The shareholders must, within at least three business days prior to the date of the meeting, submit a certificate evidencing their ownership, issued by the depository agent. In order for the shareholder to cast a vote at the shareholder meeting, they must attend and act either in person or through an appointed attorney-in-fact. Directors, statutory supervisors, managers, and other employees of the company cannot act as attorneys-in-fact.
Auditors and audit-related issues

Public companies in Argentina are obligated to appoint an external auditor or audit firm. They are appointed at the shareholder meeting and must be changed every 3 years according to the guidelines provided by CNV. There is also a rule that mandates audit partners at audit firms to be changed every 2 years as well. BlackRock will review and assess if the company is in compliance with these minimum requirements when voting on the ratification of the auditor, we will also determine if there are concerns about the accounts, procedures, the auditor’s independence that may render his/her opinion inaccurate and if we find any problematic issue, we will vote against the ratification of auditor.

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

Capital ownership and control of Argentine corporations is usually highly concentrated. Listed companies may have different classes of shares (common or preferred) with different economic rights attached to each class. Listed companies cannot issue shares with rights to cast multiple votes. Corporate capital increase (and, therefore, the issuance of new shares) must be approved at the shareholder meeting. Distribution of dividends must also be approved at the shareholder meeting. Additionally, 5% of the corporation’s profits of each fiscal year must be allocated to a legal reserve until reaching a reserve of 20% of the corporate capital. BlackRock will review these items and support the distribution of dividends if regulations are met.

Argentine companies within the public offering regime must file with the CNV annual and quarterly financial statements prepared in accordance with the International Financial Reporting Standards (IFRS), except for those categorized as small and medium-sized companies according to the criteria provided by the CNV. The annual financial statements, including the annual report issued by the board of directors (which must in turn include a specific report regarding the level of compliance with the Code) and the external audit report, must be submitted to shareholders for approval. The Capital Markets Law provides that any investor seeking to acquire the control of a listed company must launch a public tender offer, at an equitable price, for a pre-fixed term, and subject to certain procedures stipulated by CNV regulations.

Compensation and benefits

The compensation of directors and statutory supervisors may be defined in the bylaws. If this information is not provided in the bylaws, then it will be determined at the shareholder meeting. The maximum amount of compensation, including salaries and other benefits, must not exceed 5% of the profits for the fiscal year if the company does not distribute dividends, and may be increased proportionately up to 25% of the profits for the fiscal year if dividends are distributed. However, the Argentine Companies Law and the CNV regulations provide that these limits may be exceeded if the resulting amount of compensation is insufficient to cover fees to directors who carry out specific duties to the extent that it is approved expressly at a shareholder meeting. BlackRock will generally support these ballot items if they are aligned with the local regulations; we will also review any additional available disclosure to inform our decision. The Code provides a recommendation to set out clear policies of compensation for the members of the board of directors and top executives, in conjunction with company profit. CNV regulations provide that information on global compensation paid to directors, statutory supervisors, and top executives must be disclosed in the relevant offering memorandum when securities are issued.

General corporate governance matters

Amendment of articles, capital increases, mergers and spin-offs, as well as other relevant transactions require approval at an extraordinary shareholder meeting. BlackRock will vote on a case-by-case basis, taking into consideration available disclosure and rationale provided.

Brazil

The Sao Paulo stock exchange, called B3—Brasil, Bolsa, Balcão Stock Exchange—currently offers four types of listing standards: traditional segment, Level 1, Level 2, and Novo Mercado. The latter three segments subject companies to additional corporate governance practices in comparison to those set forth by law, with the Novo Mercado requiring the
most stringent 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 (CVM). In conjunction with this governance code, 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 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; however, local rules provide for the remote instruction of proxy votes in certain circumstances.

**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. If the company is listed on the Novo Mercado, the greater of two members or 20% of the board must be independent. Additionally, under Novo Mercado rules, the CEO cannot also act as the chairperson of the board. The IBGC code recommends that boards 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. BlackRock encourages companies to have their board of directors appoint the CEO; for state owned enterprises, a transparent appointment process should be stipulated in the company’s bylaws. Appointments for the role of chairman should also be enacted by the board (or the “appointment and eligibility committee” where available) and comply with the corresponding independence classification for the market.

In addition to the board of directors, companies typically have an executive officer board and are now legally required to have an audit committee (or fiscal council) responsible for overseeing audit-related board functions. Local law allows for the establishment of a supervisory council, with the main responsibility of overseeing the acts and decisions of management and the board. Given this structure, neither executives nor directors can serve on this council. Brazilian companies generally do not have other board committees, and some fail to disclose sufficient information about the fiscal council. As a result, BlackRock will analyze the available public information to inform our vote decision.

Minority shareholder board representatives are most often identified by shareholders physically in attendance at the meeting; as a result, shareholders voting via proxy may not be able to meaningfully identify their preferred candidates.

Shareholders are presented with the directors for election on a bundled slate. BlackRock will support, when aligned with the company’s corporate strategy, directors with increased diversity and independence in Brazilian boards.

Independence of directors will be assessed on a case-by-case basis. We will consider in our review, in addition to market classification: track record, conflicts of interests, independence issues, attendance, and potential over boarding.

BlackRock will generally support directors’ (and management) discharge, provided sufficient information has been disclosed and there are no unresolved allegations regarding misconduct, lack of oversight, pending legal proceedings started for breach of fiduciary trust, or other egregious issues.

**Auditors and audit-related issues**

Public companies in Brazil have an external auditor that is selected by the board of directors without shareholder ratification. In addition, auditor compensation is typically not disclosed. Since Brazilian companies are not required to present the ratification of external auditors to a shareholder vote, the establishment of an audit committee is not mandatory. BlackRock will evaluate publicly available information to assess the auditor’s independence, accuracy of accounts presented, audit procedures, and opinion presented on the financial statements. In addition, we will generally vote against proposals to indemnify external auditors.

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

In a merger, the acquiring company must name risk assessment companies to evaluate the net worth of the target company; however, the approval of the statutory report does not preclude shareholders’ right to dissent. Shareholders
generally benefit from pre-emptive rights on new share issuances, regardless of share class. BlackRock will not support proposals that (re)introduce the creation of a new class of shares with superior voting rights.

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 will generally support the approval of the financial statements, unless we have concerns about the accounts presented or the statements lack a qualified external auditor opinion.

In compliance with the Corporations Law, Brazilian companies must typically allocate 5% of the company’s income to the company’s legal reserve (as long as it is less than 20% of the outstanding capital); 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 regarding the proposed capital structure changes, we may vote against the management 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.

Compensation and benefits

While local law and best practice standards call for the disclosure of compensation for management, such compensation is often disclosed in aggregate for directors and executives rather than individual allocations. Nevertheless, companies must disclose information on maximum, median, and minimum amounts of compensation. BlackRock will consider market practice(s). However, we will not support the payment of attendance fees for directors. We will also vote against compensation proposals when the company fails to present detailed information justifying pay structure and any changes to them, especially with respect to the link aligning the compensation program with the company’s long-term financial performance and/or operational performance.

When reviewing compensation plans, we will look into potential dilution, history of reasonable equity use over the last three years, general plan features (including management of the plan, vesting periods, repricing of options, excessively discounted exercise prices, and the disclosure of performance criteria) and we will vote on a case-by-case basis.

Corporate social responsibility

Brazil maintains legislation on issues such as environmental protection, labor safety, consumer rights, and gender equality. The Brazilian Corporation Law also outlines the stipulation that the controlling shareholder must act in a manner that reflects the interests of minority shareholders, employees, and the community. In addition, BlackRock expects companies to consider corporate social responsibility in a way that fosters sustainable business operations and long-term value creation. We will assess potential materiality of environmental and social risks and review overall governance practices to identify lack of oversight and inform our voting decision consistent with these data points.

Right to call special meetings

As per local law, shareholders with at least 5% of the company’s share capital, are allowed to call a special meeting.

Chile

Local regulations, including best practice codes inform the corporate governance of listed companies in Chile, in conjunction with rules issued by the Financial Market Commission (CMF). Additionally, stock exchanges—the Santiago Stock Exchange and the Chilean Electronic Stock Exchange—have implemented a series of rules for issuers and other market participants.
In Chile, the predominant forms of corporate structure are business groups or conglomerates. Most listed companies have a controlling shareholder or a group of shareholders acting in concert. While concentrated and pyramid structures are common, Chilean corporate governance rules enacted over the last 20 years have strengthened minority shareholder rights in listed companies by, among others, tightening rules for insider trading, enhancing the roles of independent directors, and further regulating related-party transactions in listed corporations.

**Boards and directors**

Corporate boards in Chile are one-tier (unitary) boards with at least five members; However, listed companies that are also required to appoint an independent director and establish a board committee (as explained below) must have at least seven members. Director terms cannot exceed three years, although board members can be re-elected for subsequent terms. The entire board must be renewed after the expiration of its term as a slate. If during a term a vacancy of a directorship occurs, the board may fill a specific vacancy by appointing an interim director until the next regular shareholder meeting takes place. Then, the entire board must be renewed. Shareholders are allowed to vote individually for their candidates or divide their votes among them (cumulative vote system).

Under Chilean law, a listed company is required to appoint at least one independent director and in addition establish a board committee when 1) its market capitalization reaches 1.5 million Unidades de Fomento (approx. $60 MM USD), and 2) at least 12.5% of its voting shares are held by shareholders that control or possess less than 10% of all of its shares. Shareholders representing at least 1% of the company’s shares may nominate the independent director. The candidate with more votes will be elected as the independent director under the plurality vote system (where shareholders are allowed to vote for one of several candidates, and the one that polls the most among their counterparts, even if it is not the majority, wins). The board committee must be comprised of at least three board members, the majority of whom must be independent. If there is only one independent director, he or she shall appoint the remaining members of the committee from among the board. The committee will have the functions, among others, as the audit and compensation committees.

**Auditors and audit-related issues**

External auditors are required to be independent. According to Chilean law, an external audit company lacks independence if it directly or indirectly: 1) maintains a significant contractual or credit relationship with the audited company (or any of the companies of its business group); 2) owns securities issued by the audited company (or any of the companies of its business group); or 3) simultaneously provides certain services that are banned (e.g., internal audit services, record-keeping, or representation services). Moreover, individuals participating in external audits are presumed to lack independence when they: 1) qualify as a person related to the audited company; 2) are, or have been within the past 12 months, an employee of the audited company (or any of the companies of its business group); 3) own securities issued by the audited company or its business group; or 4) audit the company for more than five years, among other cases.

BlackRock generally supports ratification of auditor proposals, unless there is evidence of auditor misconduct or we have concerns about auditor independence.

**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, although most companies have a single class structure. Nearly all Chilean companies have a controlling shareholder. Mergers, reorganizations, capital reductions, dissolutions, transfers of substantial assets, and granting of collateral or personal guarantees to secure third-party obligations (exceeding certain amounts) are some of the matters that require supermajority vote approval, to protect minority shareholder interests.

Listed companies may enter into related-party transactions provided that: 1) they are intended to contribute to the corporate interest; 2) the transaction is at arms’ length as to the market price, terms, and conditions; and 3) the transaction complies with the related-party transaction procedure detailed in the Chilean Corporations Act, which includes pre-approval by the majority of uninterested directors, and in certain cases, by the shareholder meeting.

Companies must present board-approved financial results and auditor reports to shareholders for approval at the annual meeting. These reports typically include the balance sheet and the income statements of the company.
Chilean issuers are required by law to pay out at least 30% of net income as cash dividends; BlackRock typically supports payout ratios of 30% or more. Where a company has failed to appropriately allocate income to shareholders, we may vote against a proposal seeking approval of income allocation and dividends.

**Share buybacks**

By local law share repurchases must be approved by shareholders by a super-majority vote and meet the following criteria: the amount used to fund a company’s buyback program may not exceed the company’s retained earnings; the authorization may be granted for up to a period of five years; shares must be repurchased in proportion to their share class; and companies may not possess more than 5% of their own subscribed and paid-in share capital.

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 (by law, issuance of shares (for equity plans) have to be paid within three years). BlackRock’s decision will be guided by the information provided by the company, the company’s current share voting 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 regarding the proposed capital structure changes, we may consider a vote against the management 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.

**Debt issuances risk rating**

Companies that issue debt instruments for public offering are required to appoint two independent risk rating agencies which are required to maintain an ongoing rating of all of the companies’ outstanding debt issuances for public offering – BlackRock will generally support these proposals, as long as there is sufficient disclosure, or we find concerns that affect shareholders’ long-term value with respect to the particular issuance.

**Compensation and benefits**

In Chile, listed companies must disclose director compensation in the annual report with separate figures for travel, bonuses, and other expenses. As a result, shareholders have information with which to evaluate director compensation proposals.

Shareholders are not asked to approve the compensation of executives; however, the aggregate compensation figure for the principal officers of listed companies must be disclosed in the annual report.

Equity compensation plans for employees cannot exceed 10% of the company’s common shares outstanding.

**General corporate governance matters**

Amendment of bylaws requires the approval of the majority of voting stock at a shareholder meeting, except for certain matters that require supermajority vote approval. BlackRock will generally vote against a proposal to amend bylaws unless sufficient information has been provided for investors to reasonably understand the implications of the proposal.

**Right to call special meetings**

As per Chilean law, shareholders with at least 10% of the company’s share capital, are allowed to call a special meeting.

**Corporate social responsibility**

The CMF has been active in providing rules to improve the corporate governance regime in Chile. In 2012 a General Rule was issued (updated in 2015) to compel listed companies to provide information on the existence of internal audit committees, corporate social responsibility programs, whistle-blower reporting channels, and management diversity (in relation to gender, nationality, age, and length of tenure for board members, management and other executives).
Colombia

Corporate governance in Colombia is regulated by the Colombian Stock Exchange (Bolsa de Valores de Colombia or “BVC”) and the Financial and Securities Superintendence (Superintendencia financiera). Additionally, local Law provides the legislative framework for regulation and basic principles of corporate governance for companies registered in the National Registry of Securities and Issuers (Registro Nacional de Valores y Emisores or “RNVE”).

Furthermore, the Colombian Corporate Governance Best Practices Code (Código País or “The Code”) outlines 33 corporate governance practices that comprise 148 measures that are recommended for Colombian issuers, although they are not compulsory under law. The Code has been implemented through a comply-or-explain regulatory approach and companies report their compliance on an annual basis.

Boards and directors

Boards of directors of companies registered in the RNVE 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 legal representative positions is mandated by law. In addition, the law establishes criteria to classify independent directors, including not having: 1) employment by the issuer, any of its affiliates, or controlling entities; 2) status as a controlling shareholder of the issuer; 3) status as a shareholder or employee of a company that renders consulting services to the issuer, when the income received for such services represents more than 20% of the income of the company; and 4) involvement with a non-profit organization to which the issuer makes charitable payments, 5) status as manager of a company in which a legal representative of the issuer acts as a member of the board of directors; and 6) receiving from the issuer remuneration that is different from the fees paid for being a member of the board of directors or a committee.

Directors may be elected by different voting standards according to a company’s articles of association. However, these different voting standards will only be valid if they result in an improvement in the number of directors that minority shareholders may appoint.

An audit committee is the only board committee required by local law and must be comprised of at least three directors, including all the independent directors. The chair must also be independent. The Code standards calls for the establishment of a nominating and compensation committee and a risk committee, as well as a corporate governance committee. According to The Code, each of these committees must have its own internal regulations.

The Code includes certain recommendations for the election process for electing directors. These include the classification of the nominated directors as independent representatives, executives, or shareholders of the issuer. Recommended disclosure also includes details of the candidates’ qualifications and experience.

Auditors and audit-related issues

Public companies in Colombia must have an external auditor that is elected by shareholders. The Code recommends the disclosure of the compensation paid to the external auditor and the establishment of a policy for the appointment of the external auditor. 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 are 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 permitted 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 the 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 IFRS.
Columbian companies must typically distribute at least 50% of net income as dividends (or 70% of net income, if the sum of all reserves exceeds 100%). If BlackRock concludes that a company has failed to appropriately allocate income to shareholders, we 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 voting 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 regarding the proposed capital structure changes, we may consider a vote against the management 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.

**Right to call special meetings**

Per local law, shareholders with at least 20% of the company’s share capital are allowed to call a special meeting.

**Compensation and benefits**

Best practice calls for the disclosure of the compensation policies for CEOs, directors, auditors, and consultants. Moreover, The Code recommends that shareholders approve the general policy of compensation of board members (not executives), and that the board establishes a compensation committee. The general policy of compensation of executives must be approved by the board of directors.

**General corporate governance matters**

The amendment of articles requires the approval of the majority of votes cast at a shareholder meeting, unless the articles of incorporation stipulate a different vote requirement. BlackRock will generally vote against a proposal to amend articles or bylaws unless sufficient disclosure allows investors to reasonably understand the implications of the proposal.

**Mexico**

Mexico’s corporate governance guidelines are largely regulated by local law which also applies to companies listed on the Mexican Stock Exchanges. Additionally, most public companies in Mexico also voluntarily adhere to at least some provisions of the 2018 Mexican Corporate Governance Code (Código de Principios y Mejores Prácticas Corporativas or the “Code”), developed by the Enterprise and Coordination Council (Consejo Coordinador Empresarial, or CCE). While compliance with the Code is not mandatory, listed companies must disclose their compliance with the Code once a year.

Most large companies in Mexico have traditionally been organized as holding companies or business group conglomerates owned and controlled by families. Cross-shareholding and interlocking directorships are common.

**Boards and directors**

Most Mexican companies are governed by a single-tier board of directors. In accordance with applicable law, the board must not have more than 21 members; the Code provides for a minimum of three. At least 25% of the board must be independent, and any shareholder who owns 10% of voting shares is entitled to appoint at least one board member. An alternate director may be appointed for each director, provided that independence requirements are met by the alternate directors. Non-domestic (foreign) shareholders may have limited or no voting rights.

Directors nominated for election are generally presented on a bundled slate for approval by the shareholders. Furthermore, these proposals also often include verification of the directors’ independence or approval of their compensation.

Directors have a duty of loyalty and a duty of care to the company’s shareholders. Liability actions derived from the breach of such duties may be initiated by the shareholders of the company.
Mexican companies are required by law to establish an audit committee and a corporate governance committee comprised of independent directors. Furthermore, in accordance with applicable law, board committees should consist of no fewer than three directors; the Code provides for a maximum of seven directors. The chairman of these committees must be appointed by the shareholders; the remaining committee members are appointed by the board of directors. Given that at least two committees with no fewer than three directors each are required to be independent, the independence standard in Mexican Public Companies should be no less than 40% of the board.

In recognition of local market practices, biographical director candidate information may not be available prior to the shareholder meeting; however, in accordance with applicable law, shareholders are entitled to receive sufficient information and documentation at least 15 business days prior to the relevant shareholder meeting. Furthermore, pursuant to the provisions of the Code, such disclosure must include sufficient detail on the professional background and experience of the proposed directors and information necessary for the shareholders to verify compliance with independence requirements.

Share buybacks
Local law states that repurchases of shares must be approved by shareholders and should meet the following criteria: the amount used to fund a company’s buyback program may not exceed the company’s total net and retained earnings; the shares must be repurchased at the market price; and the resulting number of outstanding shares with limited or no voting rights must not exceed 25% of a company’s total share capital. In most cases, however, these terms are not disclosed. As a result, BlackRock will vote on these ballot items on a case-by-case basis, depending on the level of information disclosed publicly, as well as the particular company’s track record.

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 and approved by the board. The audit committee certifies the objectivity and evaluates the performance of the external auditor. 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 audit firms can only provide external audit services for 5 years in a row and must be rotated after that period, requiring a cooling-off period of two years in which they cannot provide external audit services for the company.

If submitted for shareholder approval, 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
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. Non-voting or limited voting shares may be issued, representing up to 25% of the company’s paid capital stock. Among others, the following transactions require shareholder approval: mergers and acquisitions; spin-offs; reorganizations; private placements; liquidations; and related party transactions that represent more than 25% of the company’s consolidated assets based on the figures corresponding to the preceding quarter (transactions under such threshold require approval by the board). Due to the closely-held nature of most companies, these transactions are generally not hostile.

The board 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, a report from the CEO, balance sheet, and income statements.

BlackRock expects Mexican companies to adhere to market standards with regard to dividend distribution and payout ratios. 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 voting 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 regarding the proposed capital structure changes, we may consider a vote against the management 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.

**Right to call special meetings**

As per local law, shareholders with at least 10% of the company’s share capital are allowed to call a special meeting.

**Compensation and benefits**

In Mexico, there is no disclosure of director compensation. In addition, shareholders are not asked to approve compensation of executives. Instead, the corporate governance committee, together with the board of directors, approve the compensation policies applicable to the company’s officers. As a result, BlackRock will review the available public filings to inform our vote decisions.

**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.

Shareholder proposals are rare in Mexico.

**Peru**

Peruvian corporate governance is primarily centered on Peruvian Company Law, Peruvian Securities Law, and the Code for Good Corporate Governance for Peruvian Corporations (The Code). Companies are encouraged to disclose information regarding shareholder structure, director independence, board committees, and compensation. The Code operates on a comply-or-explain basis.

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. 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 compensation of the directors; 3) approval of income allocation and dividends; 4) the election of the external auditor and approval of their compensation; and 5) approval of financial statements and discharge of directors.

**Boards and directors**

BlackRock encourages Peruvian issuers to publish information regarding the names and biographies of director nominees simultaneous with the public announcement of the shareholder meeting.

In recognition of local market practices, biographical director candidate information may not be available prior to the shareholder meeting. BlackRock will evaluate available information, as well as encourage companies to disclose additional details and engage, when applicable; we will generally vote to support director slates in Peru, absent any specific concerns. The voting standard in Peru for directors is “Cumulative” (this method allows shareholders to cast their vote for a single nominee for the board of directors when the company has multiple openings on its board;) as a result, when we find
concerns and there is a determination to oppose a director election, we will abstain from supporting him/her, given the market standard.

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 made in their absence.

Independence standards by law, in controlled companies require at least 30% of the board of directors to be independent and 40% for non-controlled companies.

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

BlackRock generally votes in support of the discharge of the board and management, provided sufficient information has been disclosed 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 compensation. Consistent with regulatory requirements, BlackRock expects audit partners to be independent of the company. They should not have held 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 regard to dividend distribution and payout ratios. Typically, at least 10% of net income must be distributed as dividends, in addition, if shareholders representing 20% or more of a company’s outstanding voting shares demand it, there must be a distribution of a mandatory dividend up to 50% of the company’s profits for the previous fiscal year. 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, we 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. Under Peruvian law, a capital increase is capped at 100% of the company’s paid-up capital. 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 regarding the proposed capital structure changes, we may consider a vote against the management 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.

Right to call special meetings

Under local law, shareholders with at least 5% of the company’s share capital are allowed to call a special meeting.
Compensation and benefits

Although the Code encourages disclosure of information regarding the compensation of senior management, in practice, such information is generally not provided to shareholders. Shareholders are not asked to approve compensation of executives.