



## A Potential Solution for Voting Rights and Index Inclusion Issues

### **Overview:**

BlackRock is a strong advocate for equal voting rights for all shareholders. However, we disagree with index providers' recent decisions to exclude certain companies from broad market indices due to governance concerns. Those decisions could limit our index-based clients' access to the investable universe of public companies and deprive them of opportunities for returns.

Policymakers, not index providers, should set equity investing and corporate governance standards. BlackRock supports the creation of regulatory regimes that increase financial market transparency, protect investors, and facilitate responsible growth of capital markets.

While we understand entrepreneurs' desire to maintain control of their company following an initial public offering, we believe that shareholders should have a say in critical decisions. Short of regulatory changes or revised listing standards related to capital structures and proxy voting rights, BlackRock believes that companies should receive shareholder approval of their capital structure on a periodic basis via a management proposal on the company's proxy. As part of the proposal, the board should explain why the current capital structure is best for the company and its shareholders. The proposal should give shareholders the opportunity to affirm the current structure or convert it to a one share, one vote framework. Boards should approach this undertaking with an appreciation of their business cycle and long-term value creation. As such, the management proposal should disclose the frequency over which this issue would be voted on by shareholders, potentially between every five to ten years.

For companies with dual or multi-class capital structures, we also believe that companies should equalize shareholder voting rights on key proxy decisions where conflicts might be present, such as executive pay or related-party transactions.

We look forward to driving the policy debate around voting rights towards a solution that provides appropriate accountability to investors while also encouraging capital formation and opportunities for long-term value creation that will benefit our clients.

### **Additional Information:**

We believe index providers should make every effort to reflect the investable marketplace in the broad benchmark indices they produce. In our view, benchmark indices should be as expansive and diverse as the underlying industries and economies whose performance they seek to capture. This inclusive approach better facilitates investors' using benchmark indices and aligns with the diversity of public equity investors' objectives.

At the same time, index providers should offer a range of bespoke indices, some of which may include or exclude certain securities across a variety of financial characteristics and/or environmental, social and governance factors, thus allowing investors to reflect their individual preferences.