

Q1 2020

# **BlackRock Investment Stewardship**

**Global Quarterly Stewardship Report**

April 2020

**BlackRock**<sup>®</sup>

## Contents

Transparency in the age of COVID-19	3
Engagement Statistics	5
Voting Statistics	6
Corporate Governance during COVID-19	8
Regional Engagement and Voting Highlights	12
Responsible Leadership	30
Market Development and Trends	33
Appendix	37

The BlackRock Investment Stewardship (BIS) team publishes quarterly reports to demonstrate BlackRock's approach to corporate governance engagement and fiduciary duty to support long-term value creation for our clients. The examples reported across our three regional teams – Americas, Europe, Middle East, and Africa (EMEA), and Asia-Pacific (APAC) – offers a global perspective of the wide range of issues our engagements and voting analyses cover. We aim to provide examples that highlight particular environmental, social and governance (ESG) considerations, emerging practices or issues and notable company-specific developments. We also provide examples of our engagement in the public domain, such as responses to formal policy consultations and presentations or informal discussions at conferences.

[blackrock.com/investmentstewardship](https://www.blackrock.com/investmentstewardship)

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# Transparency in the age of COVID-19

*In January 2020, BlackRock laid out a set of goals in a [client letter](#) from our Global Executive Committee that included a commitment to increased transparency of our investment stewardship activities. In order to provide consistency and clarity to our stakeholders – including the companies we engage with and our clients – we have sought to set a new standard for transparency in the industry regarding stewardship activities, even throughout this period of significant disruption. This enhanced quarterly report from BlackRock Investment Stewardship (BIS) is part of delivering on those commitments.*

When this quarter began, the COVID-19 crisis had not yet transformed the world, from the devastating toll in health and job loss, to the ways it has redefined the business operating environment worldwide.

Throughout the quarter, our engagements focused on our [2020 Priorities](#) including board quality, environmental risks and opportunities, and executive compensation. However, as the impact of COVID-19 rippled across the globe, the nature of our engagements with companies started to change. After an initial slowdown in engagements as companies (including BlackRock) adjusted to working remotely, the pace of meetings normalized and we have been able to carry out our fiduciary duty to our clients to engage and vote to support the value of their investments with few disruptions. The nearly 150 COVID-19 related engagements we held with companies reflected the reality that management teams were facing as they sought to understand the depth of this crisis, with human capital management, risk management and corporate strategy as particular areas of focus. In periods like these good governance matters more than ever. As essentially a permanent shareholder of most companies through the index funds in which our clients are invested, we are committed to playing a constructive role with companies as they navigate unprecedented levels of uncertainty.

What became apparent through these engagements is that many companies are facing extraordinary challenges and will for some time. As management teams and boards of directors grapple with existential threats to their businesses, they are also cognizant of the fact that their actions today will have a direct impact on their social license to operate in the future. We have heard from companies first-hand how they are seeking to balance the interests of all stakeholders: shareholders, employees, clients, vendors, and their communities.

The challenges companies face today reinforce the importance of year-round engagement and fulsome disclosures that help investors understand how companies navigate short-term challenges while staying focused on their long-term goals and business operations. Over the next year, we anticipate the nature of our engagements will morph from discussions around corporations' responses to the crisis into how they are incorporating lessons learned to enhance their long-term resilience. In the section "Corporate governance landscape during COVID-19," we discuss in more detail the impact of COVID-19.

Consistent with prior years, our engagements with company leadership emphasize governance practices including management of environmental and social factors that potentially have material economic, operational, and reputational ramifications for the company. In the first quarter BIS engaged with nearly 700 companies with multiple engagements at over 10% of those companies, for a total of 802 engagements globally. For the first time, BIS is providing the [name of each company we engaged with](#), the topics focused on in those engagements, and the number of times we engaged with the company during the quarter. Additionally, we [published our voting history](#) for all shareholder meetings that took place during the first quarter.

During the quarter, BIS published a number of documents that demonstrate our approach to engagement and proxy voting, including updating nine market-specific [proxy voting guidelines](#) for 2020. BIS also produced a commentary on [greenhouse gas emissions in the context of Task Force on Climate-related Financial Disclosures \(TCFD\) reporting](#); a commentary on [BIS's approach to engaging agribusiness companies](#) as well as a Viewpoint on [Europe's listed companies: their governance, shareholders and votes cast](#); and Spotlights on [best practices when using an independent fiduciary in proxy voting](#) and on [securities lending and sustainability](#). These publications reflect our commitment to enhanced transparency and our focus on sustainability issues in our stewardship activities.

In March we announced our updated [Engagement Priorities for 2020](#) and, for the first time, we introduced key performance indicators for each priority, which detail how we will hold boards accountable for progress on these important long-term issues. In addition, we mapped our [Priorities to the United Nations Sustainable Development Goals \(UN SDGs\)](#) to enable interested clients to see how our areas of focus align with and may contribute to the realization of the UN SDGs.

BIS has published several [voting bulletins](#) during the quarter, highlighting how engagement informs voting decisions. The issues covered in the bulletins range from long-standing stewardship issues, (e.g. enhancing alignment between executive pay and performance) to special situations to climate-risk management and capital allocation decisions.

During the first quarter, BIS participated in more than 2,200 shareholder meetings. In total, BIS voted on more than 18,000 proposals at those meetings. Notably, BIS voted against one or more management recommendations at over 30% of shareholder meetings. During the first quarter, BIS voted against over 500 corporate directors globally.

As we look out to the rest of the year, the BIS team remains dedicated to engaging constructively on behalf of our clients as companies respond to an unprecedented global health crisis. We recognize that the situation will remain highly fluid and we are acutely aware of the changing conditions in which companies must operate.

# Engagement Statistics

## Global Q1 2020 Engagement Statistics



4 The global engagement statistics are sourced from BlackRock on April 5, 2020 and are a reflection of 1<sup>st</sup> Quarter 2020.

5 Multiple engagements represent the number of multiple meetings during the quarter with the same company.

6 The global engagement statistics are sourced from BlackRock on April 5, 2020 and are a reflection of 1<sup>st</sup> Quarter 2020.

### Engagement Themes

**659** Governance

**467** Environmental

**286** Social

### Top Engagement Topics\*

#### Governance

- Board Composition and Effectiveness discussed **416** times
- Corporate Strategy\*\* discussed **413** times
- Executive Compensation discussed **281** times

#### Environmental

- Climate Risk Management discussed **343** times
- Operational Sustainability discussed **297** times

#### Social

- Human Capital Management discussed **208** times

\* Most engagement conversations cover multiple topics.

\*\* Corporate strategy conversations focus on long-term strategic direction, how strategy, purpose and culture are aligned, and corporate milestones against which to assess management.

Region	Total company engagements	Individual companies engaged	Multiple engagements*	Meetings voted	Proposals voted
Americas	399	338	14%	416	3,064
EMEA	134	119	11%	495	6,558
APAC	269	231	10%	1,359	9,136
<b>Global</b>	<b>802</b>	<b>688</b>	<b>12%</b>	<b>2,269</b>	<b>18,758</b>

Source: BlackRock and ISS for period January 1, 2020 to March 31, 2020.

\*Multiple engagements represent multiple meetings with the same company over this period

[www.blackrock.com/corporate/about-us/investment-stewardship](http://www.blackrock.com/corporate/about-us/investment-stewardship)

# Voting Statistics

Voting at shareholder meetings is the most broad-based form of engagement we have with companies. It enables investors to provide feedback to the company and, where relevant, encourage the board and management team to consider and address investor concerns. We make our voting decisions on a case-by-case basis in the context of our published voting guidelines for each region. Our starting position is generally to support management, engaging where we have concerns that the board or management might not be acting in the best long-term economic interests of shareholders such as our clients. We aim to give companies time to respond, recognizing that sometimes governance changes can take many months. We will vote against a company's proposals if we believe that the issue under consideration is clearly not in our clients' economic interests, the company does not wish to engage with us or engagement fails to resolve our concerns.

## Global Q1 2020 Voting Statistics

Region	Total number of meetings voted	Total number of proposals voted	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
North America	333	2,367	32%	7%
Latin and South America (LATAM)	83	697	55%	20%
United Kingdom	120	1,476	22%	5%
EMEA (ex-UK)	374	5,082	51%	11%
Japan	257	2,505	36%	5%
Asia-Pacific (ex-Japan)	1,102	6,631	24%	7%
<b>Total</b>	<b>2,269</b>	<b>18,758</b>	<b>32%</b>	<b>8%</b>

## Global Q1 2020 Votes Against Management by Proposal Type for the Quarter

Region		Global	North America	LATAM	United Kingdom	EMEA (ex-UK)	Japan	Asia-Pacific (ex-Japan)
<b>Management Proposals</b>								
<b>Anti-takeover and related proposals</b>	total number of proposals voted	179	84	1	60	16	13	5
	% of proposals voted against management	13%	7%	0%	0%	56%	69%	0%
<b>Capitalization</b>	total number of proposals voted	1,908	79	49	331	367	6	1,076
	% of proposals voted against management	6%	13%	4%	0%	10%	0%	4%
<b>Election of directors and related proposals</b>	total number of proposals voted	8,660	1,508	219	529	2,074	2,119	2,211
	% of proposals voted against management	7%	8%	2%	0%	11%	5%	5%
<b>Non-salary compensation</b>	total number of proposals voted	1,871	329	15	144	417	112	854
	% of proposals voted against management	14%	6%	20%	0%	29%	9%	12%

<b>Mergers, acquisitions and reorganizations</b>	total number of proposals voted	1,083	62	19	24	144	75	759
	% of proposals voted against management	12%	3%	11%	0%	11%	1%	15%
<b>Routine business</b>	total number of proposals voted	4538	251	387	380	1,865	161	1,494
	% of proposals voted against management	8%	2%	33%	0%	7%	0%	5%
<b>Shareholder Proposals</b>								
<b>Compensation</b>	total number of proposals voted	9	4	-	-	1	2	2
	% of proposals voted against management	0%	0%	-	-	0%	0%	0%
<b>Corporate Governance</b>	total number of proposals voted	41	4	-	-	11	2	24
	% of proposals voted against management	5%	25%	-	-	0%	50%	0%
<b>Election of directors and related proposals</b>	total number of proposals voted	209	24	7	-	38	9	131
	% of proposals voted against management	6%	17%	0%	-	8%	0%	4%
<b>Miscellaneous business</b>	total number of proposals voted	112	15	-	1	39	5	52
	% of proposals voted against management	19%	13%	-	0%	0%	20%	35%

*Note: see Appendix for “Proposal Terminology Explained”*

# Corporate governance landscape during COVID-19

The outbreak of coronavirus has stunned markets, governments, and broader society as the global pandemic continues to impact most of the world. The tremendous volatility, uncertainty, and extremely difficult market environment are already having profound effects on society, with many experts arguing that a global recession is almost certain.

The pandemic has disrupted daily life and presented significant challenges to people and businesses around the world, including in the communities where we operate. The extraordinary circumstances in which companies are operating as a result of the COVID-19 pandemic have had notable impacts on corporate governance and investment stewardship. Near term, we seek to understand how boards and management are evaluating short-term actions against the long-term needs, strategy, and performance of their companies. However, shareholders' ability to assess companies' responses to the crisis is limited given the highly fluid and complex nature of the current situation. We believe engagement on many longer-term issues pertaining to the impact of COVID-19 will be more effective once the situation is more settled. To that end, BIS has collaborated with investment colleagues across BlackRock's investment platform to develop a uniform engagement guide for companies globally so that we all benefit from being better informed of their COVID-19 response, recovery and long-term resilience. The COVID engagement guide includes questions about how companies are thinking through issues related to governance, operations, capital management, strategy and employees.

Despite the uncertainty we all face, BIS remains focused on our fiduciary duty to engage and vote on behalf of our clients. As noted above, over the past weeks we engaged nearly 150 companies across all 11 GICS sectors and 17 countries globally on COVID-19 to understand how they are balancing short-term pressures with efforts to oversee long-term material financial and operational performance.

Companies have been receptive to our engagements as they appear eager to discuss their progress with shareholders. While we have seen a range of responses from companies, our engagements have focused primarily on their efforts to ensure business continuity, maintain financial resiliency, protect and provide for their employees, and support community relief initiatives. Depending on the industry and whether companies are deemed essential or non-essential by governments, companies have described their business continuity plans which, in support of employees, include shifting to remote work and increased internal communication.

Our proactive engagements with healthcare companies on the front lines of the COVID-19 response focused on how they are balancing near-term pressures with efforts to oversee long-term material financial, reputational and social risks. Several of the companies we engaged are in the midst of developing and deploying medicines and equipment to combat the COVID-19 virus. They discussed ramping up production, building new supply chains, and collaborating with industry peers and regulators while ensuring business continuity.

Across many of our engagements, employee health and safety were clearly key priorities. In a recent engagement with a large US retailer deemed non-essential, we discussed its approach to human capital management during this crisis. While its corporate offices remain closed with associates working from home, they reassigned individuals whose previous jobs were related to retail or who could not work from home. Associates in the company's distribution centers are continuing operations to support their e-commerce business so customers can continue to shop online. The company is paying these associates bonuses for their



work during this critical time, and closely following the guidelines from the Center for Disease Control and Prevention for health and safety, including social distancing and increased levels of sanitation.

A large multi-national food retailer we engaged with detailed how their strategy required a shift to food delivery as their same store sales were down and sales performance has fluctuated as the recovery has been uneven and the situation continues to evolve. It explained that as food delivery became an even more popular option, consumers have been turning to established restaurant brands with the highest food safety standards. They pioneered contactless delivery in late January 2020 to enhance preventative health measures. That service proved popular with customers and has supported the delivery business during this period of reduced dine-in traffic. Delivery sales grew year-over-year, and its mix as a percentage of company sales approximately doubled during this period.

We have heard from some companies that certain non-financial reporting projects – like sustainability reporting – have been de-prioritized in the current environment due to COVID-19. We recognize that in the near-term companies may need to reallocate resources to address immediate priorities in these uncertain times. Given our long-term approach to stewardship, we will continue to monitor company disclosures and expect a return to companies focusing on material sustainability management and reporting in due course.

Most management teams and boards are keenly aware of the role their organizations play in society and are giving consideration to those factors as they develop their responses. The recognition of the unique nature of this crisis has placed increased emphasis in the decision-making process on the potential long-term impact on firms' reputation and corporate culture.

### **COVID 19 Operational Challenges**

For companies, business continuity, operational challenges, and human capital management (HCM) – which have long been areas of focus for BlackRock Investment Stewardship – are top of mind for boards and management teams as they grapple with reduced or remote workforces, disrupted supply chains, and mounting financial risks.<sup>1</sup> According to a survey of the hundred largest American employers, 51% have implemented work from home policies, 36% have established paid sick leave policies, and just 4% have announced layoffs as of the last week of March.<sup>2</sup>

### **Buybacks, Dividends & Managing Capital**

Some investors and policy makers have called for companies to halt share buybacks and slash dividends, with the European Central Bank (ECB) recommending that no dividends be paid out by credit institutions until at least October 1, 2020. BlackRock believes, absent government regulation to the contrary, a company's decision to pay a dividend or buy back shares should be determined by its management and board of directors.

In a number of markets, temporary measures have been introduced to make it easier for companies to raise capital without prior shareholder approval. BlackRock recognizes that companies may need to shore up capital during this time and will vote on a case-by-case basis depending on the rationale provided by the board for such issuances. Given the current environment, we expect a company to explain its course of action on capital management in light of its financial strength, the long-term sustainability of the business and the impact of

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<sup>1</sup> [https://www.ecb.europa.eu/ecb/legal/pdf/ecb\\_2020\\_19\\_f\\_sign.pdf](https://www.ecb.europa.eu/ecb/legal/pdf/ecb_2020_19_f_sign.pdf)

<sup>2</sup> "The COVID-19 Corporate Response Tracker: How America's Largest Employers Are Treating Stakeholders Amid the Coronavirus Crisis", Just Capital, <https://justcapital.com/reports/the-covid-19-corporate-response-tracker-how-americas-largest-employers-are-treating-stakeholders-amid-the-coronavirus-crisis/>

such decisions on its key stakeholders (e.g. employees, customers, suppliers, shareholders, creditors, community).

## **Virtual General Meetings**

The requirement in many markets that companies hold in person shareholder meetings is creating challenges and prompting temporary measures from policymakers as we head into peak shareholder meeting season. In a number of markets, companies opted to postpone or even cancel meetings until the policy and legal uncertainties relating to holding virtual (telephonic or online) meetings are addressed. This is likely to result in a later peak in meetings, possibly into the third quarter.

As of March 31st, 557 meetings globally have been postponed or cancelled while 560 have been switched from in-person to virtual meetings or proxy-only, according to the Harvard Law School Forum on Corporate Governance citing data from proxy research provider ISS.<sup>3</sup> Given the circumstances, BIS supports companies holding virtual only shareholder meetings, but expects the board and executive management to ensure that the meeting is conducted in a manner that enables meaningful shareholder participation, including the ability to raise questions and receive answers from key board and/or executive leadership, as well as the corporate secretary.

## **Regional Observations**

While the pandemic is global in nature, our regional teams are seeing several factors emerging within different markets at various stages of the outbreak.

### **Asia Pacific**

Through engagements and broader research, our APAC stewardship team has noticed some initial industry-specific impacts throughout the region. In China, companies are responding to the crisis by making downward adjustments to factors such as performance metrics while some shift operational strategies to meet the challenges of the crisis.

Having been the first to face the spread of the coronavirus, countries in the Asia-Pacific region have seen significant disruption to their proxy season. In Greater China, annual meetings have been postponed given that physical meetings are still required by law and there is currently no discussion that authorities will allow virtual meetings. There have been discussions to delay release dates for annual reports as many on-site audits could not be completed as a result of the coronavirus. In the Taiwan market, however, e-voting options for all listed companies have been implemented which will allow for quorums to be reached at shareholder meetings. In Japan, the Ministry of Economy, Trade, and Industry (METI) has published virtual meeting exemptions while the Australian Securities and Investment Commission is also offering more accommodations to companies.

### **Europe, Middle East & Africa**

Similarly, our EMEA team notes the growing number of companies delaying their Annual General Meetings (AGMs), mostly in response to government action across the region prohibiting large gatherings of people. Companies have cited several reasons for postponing meetings, including to protect the health of employees and shareholders, the need to postpone approvals/payments of final dividends, and to avoid the possible negative impact of virtual meetings for smaller shareholders who benefit from in-person assemblies to vote and raise questions. However, some shareholders are concerned that companies may be more inclined to utilize

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<sup>3</sup> <https://corpgov.law.harvard.edu/2020/04/09/annual-general-meetings-covid-19/>

“alternative” meeting formats to avoid in-person scrutiny of difficult issues, or that companies are postponing or even cancelling special meetings where they anticipate votes will not go in their favor. In addition, AGM postponements at many companies appear to have been made last minute, in some instances with little communication with shareholders.

In addition, there is a significant amount of uncertainty in many European markets about the legality of companies holding AGMs virtually or behind closed doors, which is leading to significant variations between markets regarding AGM postponements, and in the regulatory guidance and requirements for alternative meeting platforms. Several governments such as in France, Spain, and Switzerland, are working to clarify legal positions and permit “alternative” AGMs, while others such as the Italian government have issued guidance about relaxing conventions on physical attendance.

Overall, the high levels of uncertainty and challenges for AGMs is, in our view, highlighting a need for improved information flows between companies and shareholders about shareholder meetings. The implementation of the second phase of the Shareholder Rights Directive II (SRD II) in Europe later this year may address these challenges given its stated goal of increasing transparency in the investment chain. The COVID-19 pandemic has highlighted the need for reform in order to introduce more options for holding AGMs and voting, without losing accountability and transparency.

## **Americas**

In the Americas, an initial reaction by companies to the coronavirus crisis has also been to shift to virtual AGMs or to postpone meetings, which inevitably leads to some logistical differences from in-person meetings. In particular, BIS is paying close attention to whether provisions will be made for shareholders to be able to speak and ask questions during virtual AGMs.

Meanwhile, BIS has also noticed an uptick in US issuers adopting shareholder rights plans (“poison pills”) citing concerns about opportunistic takeover attempts or shareholder activism given their significantly depressed share prices. Generally, we are not supportive of poison pills, as discussed in our [voting guidelines](#), though we do assess them on a case-by-case basis. We may support those that are triggered at reasonable thresholds and are of limited and defined duration. In the current context, we expect companies deploying a poison pill to put it to a vote at the company’s next shareholder meeting, assuming it is held within the duration of the pill. We also expect companies to explain and justify why a poison pill was deployed and why doing so was in the economic interests of long-term shareholders.

## **Conclusion**

In conclusion, the BIS team will continue to engage constructively as companies navigate and respond to this unprecedented global crisis. We recognize that the situation is fluid and are aware of and sensitive to the environments in which companies are operating. We maintain our long-term focus and expectations of boards and leadership teams to manage long-term risks and opportunities, while addressing these near-term, material impacts on their companies.

# Regional Engagement and Voting Highlights

The following regional case studies – organized geographically across our three regional teams (Americas, EMEA, and APAC) – provide insight into the wide range of issues our engagements and voting analyses cover globally. Each case study aims to demonstrate outcomes of these activities. We typically have anonymized case studies unless we have published a Voting Bulletin explaining our analysis, engagement, and vote, or if the company has agreed to disclose their name within the report. We do this because engagement, which aims to promote long-term shareholder value, is often best accomplished in private in order to encourage frank, open discussions. In order to introduce greater transparency into our investment stewardship activities we not only are publishing more voting bulletins, but will also name the companies in select case studies where we believe it promotes the long-term interests of the companies’ shareholders or where the details of our engagement are public. We have also published [our voting record and engagement summary for Q1 2020 on the Engagement and Voting History segment of our website](#), which name companies. For more case studies, please visit the [BlackRock Investment Stewardship website](#).

Case Study Number	Case Study	BlackRock Investment Stewardship Engagement Priority(ies)
<b>Americas</b>		
1	<a href="#">US: Engagements resulting in increased Sustainability Accounting Standards Board (SASB) standards aligned disclosure at Netflix and Sanderson Farms</a>	Environmental risk and opportunities
2	<a href="#">US: Encouraging better disclosures on employment practices</a>	Human capital management
3	<a href="#">US: Amending compensation structure in light of productive engagement discussions</a>	Executive compensation
4	<a href="#">US: TCFD and SASB reporting at hardware technology companies</a>	Environmental risk and opportunities
5	<a href="#">US: ESG disclosure overhaul at a large insurance company</a>	Environmental risk and opportunities
6	<a href="#">US: Mergers &amp; acquisitions in the biopharmaceutical sector</a>	Corporate strategy & capital allocation
7	<a href="#">Colombia: Promoting disclosures at a Colombian bank</a>	<ul style="list-style-type: none"> <li>• Board quality</li> <li>• Executive compensation</li> </ul>
<b>Europe, Middle East, and Africa (EMEA)</b>		
8	<a href="#">UK: Self-storage company improves executive remuneration following multi-year votes against management</a>	Executive compensation
9	<a href="#">Ireland: Reinforcing TCFD-aligned reporting with an Irish construction company</a>	Environmental risk and opportunities
10	<a href="#">The Netherlands: Climate risk progress within the banking sector</a>	Environmental risk and opportunities
11	<a href="#">Greece and Spain: Access to non-executive directors</a>	Board quality
12	<a href="#">UK: Multiple engagements on remuneration at a Telecoms company yields a positive outcome</a>	Executive compensation
<b>Asia- Pacific (APAC)</b>		
13	<a href="#">Greater China: Green loans and inclusive financing in State-Owned Enterprise (SOE)</a>	Environmental risk and opportunities

14	<a href="#">South Korea: Electric utility engaged over sustainability practices and overseas coal projects</a>	Environmental risk and opportunities
15	<a href="#">Japan: Engaging on sustainability in the retail industry</a>	<ul style="list-style-type: none"> <li>• Corporate strategy and capital allocation</li> <li>• Environmental risks &amp; opportunities</li> </ul>
16	<a href="#">Australia: Sustainability and disclosure discussions with regional Chairmen and CEOs</a>	<ul style="list-style-type: none"> <li>• Board quality</li> <li>• Environmental risks and opportunities</li> </ul>

# 1

## Engagements resulting in increased Sustainability Accounting Standards Board (SASB) standards aligned disclosure at Netflix and Sanderson Farms

Region	Americas
Engagement Priorities	Environmental risks and opportunities
Annual Meeting Date	Netflix: June 2020; Sanderson Farms: February 2020
Outcome	Companies aligning their disclosures with SASB standards

BIS believes that the SASB framework is a good starting point for any company assessing business relevant and material environmental and social risks and opportunities, including those related to climate risk. The SASB's stated purpose is to help businesses identify, manage, and report on the sustainability topics that matter most to their investors. The SASB standards are industry specific, enabling investors and companies to compare performance between companies within an industry. The SASB codified a complete set of final standards for 77 industries in 2018, which identify a baseline set of financially material sustainability topics and their associated disclosure metrics. These metrics continue to evolve.

BIS engaged with several companies in the first quarter regarding the potential adoption of SASB-aligned disclosures. Following our engagements, a number of companies conducted materiality assessments and decided to provide more information on their sustainability efforts, the governance associated with these efforts, and their impact on society.

For example, we engaged with Netflix, which published its inaugural environmental, social, and governance (ESG) report during the first quarter, utilizing the SASB reporting frameworks for the Internet & Media Services and Media & Entertainment industries. The company determined its material focus areas and stated that it would publish an annual report covering their ESG performance. In their report, the company disclosed its diversity and inclusion efforts, its commitment to fair and balanced media, its approach to transparent information sharing between the board and management, and its renewable investment projects.

Additionally, a number of food products companies have committed to SASB disclosures or SASB informed disclosures, in recognition of the importance for their companies to provide reliable and consistent data on sustainability topics. This quarter we published a [voting bulletin for Sanderson Farms](#) explaining our support for management during their annual meeting after the company committed to aligning their sustainability reporting with the SASB framework following engagements with their largest shareholders, including BlackRock.

A company’s disclosures should reflect its financially material business practices. How management articulates a company’s approach to an issue can signal leading or lagging practices and performance on that issue. The increase in SASB-aligned reporting is a positive indication that companies are seeking to effectively communicate material sustainability performance to stakeholders. BIS continues to engage directly with companies to seek greater understanding around their management and oversight of the appropriate business risks and opportunities and to encourage more meaningful and material disclosures in line with TCFD and SASB.

## 2 Encouraging better disclosures on employment practices

Region	Americas
Engagement Priorities	Human capital management
Annual Meeting Date	February 2020
Outcome	BIS supported a shareholder proposal requesting a report on the company's human rights due diligence process due to lack of progress enhancing disclosures on material business risks related to employment practices across its supply chain

BIS has had ongoing engagements with a large US packaged food company on a range of governance and sustainability topics, including the company’s approach to human capital management and board oversight of human rights-related risks. For the past two years, the company has received non-binding shareholder proposals requesting more robust disclosures on its human rights due diligence processes. During this time, we have engaged with management representatives to discuss board oversight of the management of human rights-related risks across the company’s supply chain. The company has completed a number of acquisitions to expand its international footprint, so we have also sought to understand whether the company plans to bolster its processes and reporting on supply chain due diligence.

Based on our engagements and analysis, we determined that the company has not sufficiently disclosed its human rights assessment process beyond its owned and operated facilities. While the company has a Supplier Code of Conduct and incorporates it into supplier contracts, it does not disclose any information with respect to its supplier auditing process or the ramifications for suppliers if they do not comply with the Code of Conduct. Given the company’s growing international operations, its supply chain may present new human rights risks related to its suppliers’ employment practices. We believe that enhanced disclosures would allow investors to better assess the company’s approach to this material operational risk in the context of long-term value creation. In addition to signalling our concerns by supporting the shareholder proposal at this year’s annual shareholder meeting, we communicated our feedback to the company and shared examples of how its peers with large, complex supply chains are reporting on human rights-related risks.

We will continue to engage with the company to discuss its governance of and reporting on material business risks and opportunities, including human rights-related risks. Where we do not see progress, we will hold members of the relevant committee, or the most senior non-executive director, accountable.

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## Amending compensation structure in light of productive engagement discussions

Region	Americas
Engagement Priorities	Executive compensation
Annual Meeting Date	September 2020
Topic	Advisory vote to approve executive compensation (“say-on-pay”)
Outcome	Company open to amending their executive compensation plan following two recent engagements

BIS engaged multiple times over the past year with a large shipping and logistics company about their executive compensation structure and corporate performance.

We supported the company’s pay plan in 2019 with reservations, but were reassured by the fact that the compensation committee had made progress to amend several features of the plan. In our analysis, we considered the fact that the compensation committee had exercised negative discretion by not paying annual bonuses to non-executive officers (NEOs) or management directors across the enterprise. They did so on account of lagging / poor financial performance in 2019. In addition to not receiving a bonus in 2019, the CEO did not receive a base salary increase for 2020.

As annual bonuses were not a factor, we focused attention on EPS targets in the company’s long-term plan. For 2019, long-term target payouts required the company to average a three-year annual EPS growth of 12.5%. The plan did not allow for payouts below 5%, and a maximum payout (150% of target) was possible only if the company’s growth rate was higher than 15%.

During the 2019 engagement, BIS recommended the company use more rigorous EPS growth targets, particularly when adjustments are made for non-Generally Accepted Accounting Principles (non-GAAP) EPS considerations. In addition, we suggested that the company consider a long-term metric connected to its capital allocation strategy. For companies within this industry peer group, return on invested capital (ROIC) can be a value-driving metric, as it may help management teams focus on appropriate capital allocation strategies over a one, three, and five-year timeframe. In our view, incorporating ROIC alongside an EPS metric would offer balance to the existing plan’s structure.

In our follow-up engagement this quarter, we echoed the recommendations we made prior to last year’s vote. The company’s board representatives were receptive to our feedback and indicated that they were gathering feedback from a range of their investors on metrics to include in their long-term plan. We anticipate that the company will amend their long-term executive compensation structure prior to their Fall 2020 annual meeting once they have evaluated investor feedback. We closely evaluate the company’s policy and may take additional action if changes in fact are not made.

## 4 TCFD and SASB reporting at hardware technology companies

Region	Americas
Engagement Priorities	Environmental risks and opportunities
Topic	Sustainability reporting at hardware technology companies
Outcome	Set initial expectations for more robust sustainability reporting in alignment with SASB and TCFD

In the first quarter of 2020, many of the hardware technology companies we engaged with were in the early stages of producing sustainability-related disclosures. Encouragingly, many have committed to enhanced disclosures within a fairly short timeframe.

In some of our engagements we discussed challenges that hardware technology companies are facing regarding reporting. Companies across this space are quite diverse—they vary in size and in their business models, so a one-size-fits-all policy is not always appropriate. Some of these companies also contended that certain SASB-identified materiality topics are not relevant for their specific operations. In these instances, we explained that companies should note where they find alignment, or not, with the SASB metrics, and provide detail for investors to understand applicability.

Some companies are already reporting in line with other frameworks than TCFD / SASB and are building their knowledge and expertise around SASB and TCFD. For such companies, we ask that they clearly communicate how they align with TCFD recommendations and also note where in their existing disclosures we can find sufficient information on the SASB-identified material topics and associated metrics. A few companies stood out from the rest in articulating not only the risks but also the opportunities that directly connected sustainability considerations to long-term shareholder value, including more efficient manufacturing processes and a product mix that reflects changing customer demands.

BIS relies on company disclosures to help assess the board's approach to risk oversight. Without robust reporting, we may not be able to evaluate the practices in place and the appropriateness of the oversight. Ultimately, our goal is to understand how material ESG factors are managed. We continue to encourage companies across hardware technology to enhance their ESG disclosures.



# 5

## ESG disclosure overhaul at a large insurance company

Region	Americas
Engagement Priorities	Environmental risks and opportunities
Annual Meeting Date	May 2020
Topic	TCFD and SASB reporting
Outcome	Large capitalization insurance company commits to SASB-aligned sustainability reporting and to review TCFD recommendations for climate risk disclosure

BIS met with a large capitalization insurance company in both the fourth quarter of 2019 and the first quarter of 2020. In 2019, the company created a senior management position to oversee its corporate ESG policy and risk management. In our engagements, members of management shared that the creation of this role reflected senior management’s revitalized focus on updating ESG policies and underlying business practices.

One of the company’s top-level priorities is to revamp their sustainability report. During our 2019 engagement, BIS highlighted the recommendations in the TCFD and the standards put forward by SASB as benchmarks for corporate disclosures. We underscored each frameworks’ emphasis on financial materiality.

The second engagement followed the release of BlackRock CEO [Larry Fink’s 2020 Letter to CEOs \(the Letter\) in the first quarter](#). The company scheduled the meeting to continue discussion of its proposed ESG disclosure. The company presented its new “purpose statement” around which its ESG disclosures would focus. On sustainability reporting, the company explained that the Letter helped to clarify expectations for effective ESG reporting. Members of management stated that their upcoming report would align with SASB and would incorporate elements of the TCFD’s recommendations.

The company also noted that sustainability considerations were incorporated into its overall business model and that they would periodically provide public updates on their sustainability efforts. BIS welcomes this engagement outcome and looks forward to reviewing the sustainability report and providing feedback on the company’s sustainability efforts.

# 6

## Mergers & acquisitions in the biopharmaceutical sector

Region	Americas
Engagement Priorities	Corporate strategy & capital allocation
Special Meeting Date	Company #1: February 2020; Company #2: March 2020
Topic	Mergers & Acquisitions
Board recommendation	Management of each company recommends support for share issuances relating to acquisition activity
BlackRock Vote	Votes against the issuance of shares for purposes of acquisition
Outcome	Concerns about valuation practices conveyed through vote against management

BlackRock voted against share issuances related to acquisition activity by two different micro capitalization companies in the biopharmaceutical sector due to concerns about valuation practices, and conflict management. Both companies sought approval to conduct mergers without seeking or providing a fairness opinion with respect to the valuation of the transaction.

In one case, a biotech company requested shareholder approval in connection with the acquisition of an over-the-counter specialty pharmaceutical company. The two companies had a board member and shareholder in common, creating a conflict of interest. The company disclosed the director's conflict of interest, identifying his ability to control the outcome of the vote. The disclosures indicate that while the conflicted board member provided his opinion on the transaction, he was recused from the board meeting when the vote occurred. While there was unanimous approval for the merger by all disinterested board members, the board decided against seeking a fairness opinion from a financial advisor to assess the value of the transaction. We prefer that transaction proposals include a fairness opinion, provided by a reputable financial advisor, assessing the value of the transaction to shareholders. Such an opinion is important for our ability to assess whether the transaction is in the best long-term economic interests of our clients, particularly when there is a conflict of interest.

In another instance, a micro-cap specialty pharmaceutical company similarly sought approval to issue common shares in connection with a merger without a fairness opinion to verify the transaction valuation. The company merged with a private company in the same industry. The acquirer disclosed that it did not consider other potential targets. BIS closely examined the available disclosures put before shareholders to determine whether the salient features of the transaction are in the best long-term economic interests of our clients.

In both instances described above, we voted against the mergers. Without a third-party expert to provide a fairness opinion on the valuation, combined with the processes and the parties involved, we did not have sufficient information to verify that the transactions were in the best interest of our clients.

# 7

## Promoting disclosures at a Colombian bank

Region	Americas
Engagement Priorities	Board quality / Executive compensation
Annual Meeting Date	April 2020
Topic	Board oversight responsibilities
Outcome	The company improved its disclosures in line with leading practices

In January 2020, BIS engaged with a large Colombian banking institution to discuss a range of governance issues and explore overall alignment between the company's corporate strategy and capital allocation.

After reviewing the company's public disclosures, we found we were unable to gain a clear understanding of the board members' oversight responsibilities and thus found it difficult to assess the board's effectiveness. We engaged directly with the company and learned that many of the relevant oversight responsibilities were dispersed between board committees and that the board was establishing additional committees which may require the appointment of additional directors with the appropriate skills. We encouraged the company to disclose further information related to their board's skills matrix, nomination process, and diversity policy, among other items.

In addition, we shared our perspective on sound executive compensation policies and disclosures, particularly how performance pay links to shareholder returns. We encouraged the company to start providing disclosure on the role of the board in determining executive pay policies, the components of the executives' compensation packages, and the rationale for the metrics used to determine performance.

Given the general lack of transparency on executive compensation in Latin American markets, we make a point of discussing enhanced disclosure in our engagements and explaining why institutional investors seek to understand the rigor behind compensation plans designed to recruit, retain and motivate key executives. We also emphasize the need to link incentive pay outcomes to a company's long-term strategy and performance. We have found that companies in the region are generally receptive to disclosing more information about their compensation packages and the rigor behind them.

Later in the quarter, the company publicly disclosed further information about the board's skills matrix, diversity, and nomination policies. It also provided additional disclosure on the board's oversight of executive compensation and more detailed information on the executives' compensation packages.

## 8

## UK self-storage company improves executive remuneration following multi-year votes against management

Region	EMEA
Engagement Priorities	Executive compensation
Topic	Remuneration policy and approval of long-term incentive plan (LTIP)
Outcome	Company amended their remuneration policy and LTIP following engagements and signaling our concerns by voting AGAINST management for three consecutive years prior to this year's vote

For the past several years, BIS has expressed ongoing concerns about executive remuneration at a large UK self-storage company by withholding support from the pay proposals and from all members of Remuneration Committee at the company's 2017, 2018, and 2019 annual meetings. Over that time, we engaged with the board to share our concerns and made recommendations for improvements to the company's executive remuneration structure. In February 2020, the company announced that it was making changes to its remuneration structures in response to shareholder feedback. As a result of these improvements, this year we supported the company's remuneration proposal and re-election of the directors on the Remuneration Committee who oversaw these enhancements. Following several years of low shareholder support, the company's 2020 remuneration policy and approval of the company's long-term incentive plan both received nearly 98% shareholder support.

The company's revised remuneration policy incorporates changes in line with our feedback. One of our key concerns was the exceptional opportunities in the plan, namely a one-off award not tied to sufficiently challenging performance goals. The company's new, more traditionally structured plan removes these one-off awards and splits variable opportunity between annual bonus (150% of base salary) and a long-term plan (200% of salary). We believe the new structure should result in rewards that are more appropriately aligned with company performance.

Prior to our vote this year, we also shared feedback on the deferral provisions for the annual incentive plan in the new policy. The company is deferring into shares any bonus that is earned above 100% of base salary. This is unconventional compared to the observed market practice whereby companies typically defer between 25%-50% of the bonus earned. The company provided a reasonable explanation, noting that the CEO and the CFO hold 32 and over 10 times their base salary in company shares, respectively. This substantially exceeds the company's shareholding requirement of 1x variable opportunity, which is in line with our EMEA voting guidelines.

We are encouraged that the company has evolved its remuneration policy and will monitor how it is implemented and reported in the company's 2021 remuneration report.

Separately, a new chairman was appointed to the board, which we see as an opportunity to rebuild the relationship between the board and shareholders, as this was compromised over the past few years given the questionable decisions on remuneration. We will seek to engage with the new chairman in due course.

# 9

## Reinforcing TCFD-aligned reporting with an Irish construction company

Region	EMEA
Engagement Priorities	Environmental risks and opportunities
Topic	Engaging a Climate Action 100+ focus list company to encourage TCFD-aligned reporting
Outcome	Company was open to our recommendation to consider the TCFD framework for its climate risk reporting

We recently engaged with the heads of ESG and sustainability of an Irish construction company to discuss its approach to managing and reporting on its sustainability practices, including climate risk. We shared our view that the company should consider aligning its climate risk reporting with the TCFD framework. We note that the company is on the Climate Action 100+ focus list.<sup>4</sup>

During the engagement, the company explained that it is focused on its carbon footprint due to its cement production. Although this part of its business represents less than 15% of the company’s revenues, it accounts for 80% of the company’s total carbon footprint. To manage these greenhouse gas (GHG) emissions challenges, the company is focusing on its emissions intensity (520kgCO<sub>2</sub>/t by 2030) rather than setting an absolute GHG target that would constrain cement production volumes. The company explained that while its GHG emissions intensity has decreased substantially, making further improvements has proved challenging. Nonetheless, the company met its 2020 target and is seeking to further reduce its GHG emissions intensity by an additional 8% by 2030.

We are encouraged that the company has set an ambition to achieve carbon neutrality along the cement and concrete value chain by 2050. This science-based target (SBT) at a 2-degree scenario has been independently verified to be in line with the Paris Agreement. From a reporting standpoint, we were also encouraged to learn from the engagement that the company is in the process of enhancing disclosures and is reviewing both the TCFD and SASB reporting frameworks. The company indicated that it welcomed the TCFD recommendations and is actively participating in TCFD’s preparers forum.

While it is early days in the company’s reporting journey, we are encouraged with the tone of our engagement. We will be looking to the company to align its climate risk reporting more explicitly with those recommendations going forward.

<sup>4</sup> A listing of Climate Action 100+ companies is available at <https://climateaction100.wordpress.com/companies/>. In January 2020, BlackRock joined Climate Action 100+, an investor-led corporate engagement initiative encouraging companies to improve climate risk disclosure and align their business strategies with the goals of the Paris Agreement. This was a natural progression of our stewardship efforts on climate risk, building on the work we have done to promote enhanced governance practices, target setting and disclosures in companies.

# 10 | Climate risk progress within the banking sector

Region	EMEA
Engagement Priorities	Environmental risks and opportunities
Topic	Climate risk in the financial sector
Outcome	Company is playing a leading role in the sector in measuring and monitoring the impact of its activities on climate change as well as making progress on its climate risk management practices. Company has endorsed the TCFD framework, aligned disclosures with it and participates in a number of industry initiatives around climate change

Sustainability and responsible banking have become central themes at many large financial institutions over the last 12-18 months, as reflected by a wave of public and private sector initiatives and commitments by companies globally. These include:

- Launch of the Principles for Responsible Banking<sup>5</sup> by 130 banks from 49 countries, representing more than USD47 trillion in assets in September 2019. The Principles aim to transform the banking industry to enable it to play a leading role in achieving society's goals as expressed in the UN Sustainable Development Goals and the Paris Climate Agreement.
- Pilot projects to better equip the banking industry to implement the recommendations of the TCFD framework<sup>6</sup>.
- Establishment of the Network for Greening the Financial System (NGFS) in 2017 and publication of its recommendations in 2019<sup>7</sup> for central banks, supervisors, policymakers and financial institutions to enhance their role in managing environment and climate-related risks; regulatory plans are underway to introduce climate-related stress tests<sup>8</sup> with the Bank of England currently consulting on its proposed framework for the 2021 Biennial Exploratory Scenario exercise.

With these developments in mind, we engaged with the supervisory board and sustainability team of a large Dutch multinational banking and financial services corporation to better understand their approach to sustainability and climate risk. Through engagement, we were able to assess the company's focus on this area and found this to be in line with our expectations. The company has defined a clear approach to sustainability in the context of its business strategy, to include focusing on climate action, and improving the financial health of society. The board has regular oversight of the work being undertaken with accountable individuals reporting to the management board. The company has also set ambitious plans to steer its loan book to align with the Paris Agreement goals (of restricting temperatures well below 2 degree versus pre-industrial levels by the end of the century, with the ambition to strive for 1.5 degrees).

<sup>5</sup> <https://www.unepfi.org/banking/bankingprinciples/>

<sup>6</sup> <https://www.unepfi.org/banking/tcfid/>

<sup>7</sup> [https://www.ngfs.net/sites/default/files/medias/documents/ngfs\\_first\\_comprehensive\\_report\\_-\\_17042019\\_0.pdf](https://www.ngfs.net/sites/default/files/medias/documents/ngfs_first_comprehensive_report_-_17042019_0.pdf)

<sup>8</sup> <https://www.ft.com/content/bacdb162-217e-11ea-92da-f0c92e957a96>

The engagement shed light on some observable progress on the sustainability front and, more specifically, on climate risk management. The company has been working with the 2° Investing Initiative, a global think tank developing climate metrics for the financial sector to adapt their Paris Alignment Capital Transition Assessment approach, originally developed for equity and bond portfolios, so it could also be applied to the bank's lending.

The company is also actively involved in industry collaboration and innovation. It has signed the Collective Commitment to Climate Action<sup>9</sup> in September 2019, the sector's most recent commitment to align portfolios with the Paris Agreement goals, work together to develop specific methodologies for the banking sector to measure impact and publicly report progress on these commitments. It is among 50 financial institutions that have publicly committed to set emissions reduction targets through the Science Based Targets initiative for financial institutions.<sup>10</sup>

Additionally, the company has endorsed the TCFD and has partnered with 16 of the world's largest banks as part of the United Nations Environment Program Finance Initiative's TCFD Pilot.<sup>11</sup> The goal of this pilot is to better equip participating banks and the banking industry at large to implement the recommendations of TCFD.

While there is no agreed approach across the banking sector on how to measure and monitor the impact of banking activities, we welcome the initiatives taken by the company, as well as its efforts to collaborate with other players to develop a methodology. We recognize that these efforts are part of a multi-year journey and the company is providing annual progress updates on its efforts and highlighting future areas of work. In our experience, investor engagement on sustainability issues reinforces for companies the level of shareholder interest in evolving practices in this area. This is particularly important as we have heard from this company and others that there is often a lack of shareholder interest on these topics.

We will continue to engage and provide feedback to the board and management on a range of governance and material sustainability issues, including its strategy for climate risk and relevant disclosures.

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<sup>9</sup> <https://www.unepfi.org/banking/bankingprinciples/collective-commitment/>

<sup>10</sup> <https://sciencebasedtargets.org/financial-institutions/#>

<sup>11</sup> <https://www.unepfi.org/banking/tcfid/>

# 11

## Access to non-executive directors: perspectives from Greece and Spain

Region	EMEA
Engagement Priorities	Board quality
Topic	Governance practices, including access to non-executive directors
Outcome	A Greek company is continuing to make positive enhancements to its governance practices, including through shareholder access to non-executive directors. Conversely, this access has been denied at another company in Spain

BIS has for many years emphasised in its conversations with companies that it seeks to understand how effectively a board oversees and counsels management. To achieve this, we expect to have access to one or more non-executive, and preferably independent, directors who have been identified as being accessible to shareholders where this would be appropriate.

This quarter, we were pleased to engage with the chairman of the Nomination and Remuneration Committee of a Greek-domiciled industrial conglomerate. This was our first opportunity to engage directly with a member of the company's board since a 2017 merger. We welcomed the company's clear desire to adopt corporate governance best practices from both its home market and other markets across Europe – including not only board-level engagement with investors but also other practices such as annual board effectiveness reviews. The company is similarly looking to further enhance the skills and experience on its board, recognising in particular the increasing importance of sustainability and ESG topics within the company's sector. Access to the Remuneration Committee's chairman allowed us to share our perspectives on their executive remuneration ahead of the company putting forward a non-binding vote on its remuneration report in 2020.

Regrettably, the ability to engage directly with non-executive directors remains a sticking point with a number of companies in Europe. This can be the case even with companies where our engagement at management level has revealed otherwise superior ESG practices. For example, we engaged this quarter with a Spanish energy company with market-leading sustainability and climate-related disclosures, and ambitious carbon intensity targets that it aims to meet by 2030. The company has also appointed a Lead Independent Director but explained to us that it currently has a policy not to permit shareholders direct access to this individual other than in very exceptional circumstances and subject to a formal written request. The company's position is that shareholder engagement should be conducted through its CEO (who also holds the role of board chairman) and its investor relations function.

We were clear with this company that its stance did not meet our expectations and was not in keeping with the access we have to non-executive directors at its peers. As noted, we consider such access a crucial means through which to assess the quality of board oversight. For this reason, we have now clarified – as the key performance indicator of our Board Quality engagement priority – that we will hold companies' most senior



non-executive director accountable for ensuring the identification of appropriate non-executives who are accessible to shareholders.<sup>12</sup>

## 12 Multiple engagements on remuneration at a UK Telecoms company yields a positive outcome

Region	EMEA
Engagement Priorities	Executive compensation
Topic	Remuneration policy
Outcome	Following our prior engagements, we recently learned that the company was making a number of improvements to the structure of its remuneration plan

Over the past several months, BIS has had multiple engagements with the chair of the Remuneration Committee of a UK-listed telecommunication company to discuss concerns we had identified with the company's proposals for renewing its executive remuneration policy. We were encouraged to learn over the course of these engagements that the company is making meaningful enhancements to the structure of its policy, many of which are in line with our policies.

The company shared that its Remuneration Committee appreciates the value of open dialogue with its shareholders and the opportunity to take our views into account. Following its engagement with shareholders, including BlackRock, the company made a number of changes. Given the recent appointment of a new CEO and a structural transformation of their finance operations, the Remuneration Committee decided to harmonize the target and maximum levels of the annual bonus award for both the CEO and CFO. We questioned this proposal given the differences in responsibilities between the two executives and asked for further clarity into the performance measures used to calculate this annual award, noting our previous concerns about limited disclosure. The company explained that the board had taken into account the additional responsibilities covered by the CFO during 2019 and his contributions to support the newly appointed CEO when deciding to harmonize their awards. The board further indicated it would make a series of additional improvements within the new remuneration policy, including not offering a one-off award of restricted shares to the CFO and harmonizing the shareholding requirements on the CEO and CFO, as well as the simplifying the metrics used to assess non-financial performance.

We will review the board's final proposals ahead of the company's July 2020 annual general meeting, when we expect to vote on the renewal, and consider the suitability of the overall policy at that point.

<sup>12</sup> BIS' 2020 Engagement Priorities are available at <https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-priorities>

# 13

## Greater China: Green loans and inclusive financing in State-Owned Enterprise (SOE) banks

Region	APAC
Engagement Priorities	Environmental risks and opportunities
Topic	Green financing
Outcome	Improved mutual understanding regarding the materiality of sustainable business practices to long-term value

Chinese banks have begun ramping up green financing programs since the People’s Bank of China (PBOC) released “Guidelines for Establishing the Green Financial System” in August 2016. BIS noted a recent and substantial increase in green loan balances reported by several Chinese banks, some of which reported that green credit accounted for 8% of the total loan book value. To better understand green lending practices, BIS conducted in-person meetings with three major state-owned banks.

The green financing taxonomy promulgated by PBOC is different from that of the European Union. In each engagement, BIS discussed how China’s taxonomy impacts the percentage of green credit reported. In some instances, the reported percentage would be different if another taxonomy was applied. However, China’s taxonomy classifies projects to improve fuel efficiency as “green” investments, given the nation’s current progress on sustainability. In addition to green financing, each of the bank we engaged with have been gradually reducing exposure to industries that are considered “less sustainable.” For instance, the three banks have been adhering to PBOC’s directive to limit credit exposure to industries heavily impacted by pollution, high energy consumption, and overcapacity issues. One of the banks also recently added an additional step for checking a borrower’s environmental compliance record in the due diligence process for loans in recognition of the fact that a violation of environmental protection regulations could potentially lead to production halts that would materially impair an entity’s ability to repay loans.

We also discussed several ways to bring more visibility into the impact of sustainability issues on long-term asset quality. Apart from screening out certain industries mandated by PBOC, lending practices are largely driven by traditional financial metrics and have yet to systematically incorporate environmental or social issues into the risk management process. As such, we believe that the increase in green credit balances may reflect implementation of China’s taxonomy rather than a conscious shift in lending preferences. With the Chinese government gradually opening the domestic banking sector to foreign investors, any potential shortcoming on sustainability practices could materially erode banks’ competitiveness as international peers increasingly enter the market. We communicated these views to the banks we engaged with and will continue to engage.

# 14

## South Korea: Electric utility engaged over sustainability practices and overseas coal projects

Region	APAC
Engagement Priorities	Environmental risks and opportunities
Meeting Date	March 2020
Topic	Energy transition planning and coal assets
Outcome	We assessed the company’s sustainability practices and contacted the CEO seeking a clear strategic rationale for its investments in coal energy

BIS conducted multiple engagements with a South Korean electric utilities company, focusing on the company’s sustainability practices. We also expressed concerns over the company’s potential involvement with several controversial coal projects.

We wanted to understand the company’s current energy policy; its short-to-long-term strategy and alignment with national energy plans, as well as the level of disclosure around associated metrics and targets. We found that that company provides fairly robust disclosures – reporting on its Scope 1, 2 and 3 emissions, its 2030 greenhouse gas (GHG) emissions reduction target, as well as its “Renewable Energy 2030 Plan” to expand renewable energy. The company shared that the board comprises directors with relevant environmental expertise, and that those directors oversee all sustainability-related activities and issues at the company.

We were encouraged that the company’s current five-year managerial objectives included energy transition plans, the reduction of GHGs, and the expansion of renewable energy as key performance targets. However, we raised concerns about the company’s recent push into overseas coal assets in Vietnam and Indonesia, which seem to contravene its above-mentioned energy transition commitments. This is exacerbated by the fact that other companies in the region, including banks, have publicly announced their decision to exit these projects.

In response to our queries, the company cited internal guidelines for overseas businesses that were established in 2019 due to increased scrutiny of coal initiatives. These guidelines stipulate that the projects have to fulfill certain key criteria, including, but not limited to: 1) meeting international environmental criteria as set by the World Bank; 2) being eligible for export financing per OECD guidelines; 3) using Ultra Super Critical (USC) technology; and 4) being situated only in countries where coal is the most realistic option as per national energy policy, among others. The company also emphasized the internal review and escalation processes that such projects would have to undergo, including an evaluation by the Investment Committee reporting directly to the board.

Regarding the Vietnamese and Indonesian projects, the company explained that they were still under review and discussion, but it was confident that the projects would undergo rigorous internal assessment and be held to environmentally sound standards. Nonetheless, BIS has escalated our concern to the company’s CEO via a formal letter. It requests enhanced disclosure, including a clear strategic rationale justifying the company’s involvement and asks for details about the risks-and-opportunities analysis conducted for these controversial projects.

We welcomed the company’s responsiveness and willingness to engage with investors on these issues. We will continue to monitor for relevant disclosures and engage actively with the company – if the need arises, we might escalate our actions through votes in the future.

## 15 | Engaging on sustainability in the Japanese retail industry

Region	APAC
Engagement Priorities	Corporate strategy and capital allocation / Environmental risks & opportunities
Meeting Date	May 2020
Topic	Corporate sustainability efforts
Outcome	Upon engagement, we believe the direction of and the approach to integrating sustainability into the company’s long-term strategy is in line with our expectations

BIS engaged with a major Japanese retailer on its corporate purpose, vision, and sustainability practices to better understand how they may materially influence the company’s long-term strategy.

We learned that the company has been actively engaging in sustainability initiatives since the 1980s, including climate risk and supply chain management. These efforts were led by the founder of the company who believed early on that climate risks had a material impact on the company’s business, given that the retail industry is dependent on the stability of the global economy and society. The company has continued to enhance its disclosures on sustainability, including on long-term emissions reduction targets, and has aligned these disclosures with the TCFD framework. Furthermore, the company conducted and disclosed the results of its scenario analysis in 2019, and has plans to further integrate TCFD into its long-term strategy.

BlackRock commended the company’s efforts and suggested that the company strengthen the linkage between its sustainability efforts and its long-term strategy. Notwithstanding the highly competitive Japanese retail market and price pressures, the company believes that promoting its sustainable initiatives will lead to added value as consumers increasingly prefer socially and environmentally responsible products and retailers. We believe the direction of and the approach to integrating sustainability into the company’s long-term strategy is appropriate given the company’s position. We plan to continue engaging with the company to offer constructive feedback on the company’s long-term strategy and sustainability efforts.

# 16

## Sustainability and disclosure discussions with regional Chairmen and CEOs

Region	APAC
Engagement Priorities	Board quality / Environmental risks and opportunities
Meeting Date	February 2020
Topic	COVID-19 and sustainability reporting

In February, BlackRock’s Chairman and CEO, Larry Fink, and Asia Pacific Chair, Geraldine Buckingham, travelled to Australia to meet with clients and employees. As part of this visit, the BIS team hosted a discussion with 19 CEOs to share perspectives on a broad array of topical governance issues. In the discussion, Mr. Fink shared insights on the evolution of BlackRock’s annual CEO letter and what it means for the companies BlackRock invests in on behalf of its clients. Given the increasing uncertainty around COVID-19 (the meeting was held in late February), a vigorous discussion of its continued impact, including supply chain issues and broader economic fallout ensued.

Mr. Fink stated that Australia, with its abundance of natural resources and intellectual capital, was well placed in the long-term to combat climate change. He discussed BlackRock’s continued support for sustainability reporting frameworks like the TCFD and the SASB. While Australian companies are familiar with the TCFD framework, companies are less familiar SASB. In our 2020 engagements with companies, we will continue to encourage companies to align their sustainability reporting with these two frameworks.

# Responsible Leadership

## Speaking Events:

Members of the BIS team spoke at or participated in several events over the past quarter, with the goal of furthering discussion on matters deemed important to investors and/or promoting an increased understanding of BlackRock's approach to investment stewardship. We prioritize events that enable us to connect with key constituents and thought leaders, including corporate directors, senior members of management teams, policy makers and other shareholders, including clients.

## Americas

### Director Dialogue Day 2020 – New York, NY

On February 5, 2020, the BIS Americas team hosted its third annual Director Dialogue Day to engage with directors on a broad array of topical governance issues. More than 70 board and management representatives attended the event – representing 45 companies across 26 industries and four countries. Members of the Americas team participated in an interactive session with the audience and previewed our [2020 Engagement Priorities](#). Additionally, several investment team leaders from across the firm discussed how they integrate ESG considerations into their investment processes, and why it is essential to delivering long-term financial performance for BlackRock's clients. Barbara Novick, Co-Founder of BlackRock and Vice Chairman also moderated a conversation with Chairman and CEO Larry Fink on his 2020 Letter to CEOs and macroeconomic trends impacting the investment landscape.

### EY Center for Board Matters – New York, NY

In March, we participated in a webinar hosted by the EY Center for Board Matters. Entitled “The Evolving ESG Strategic Imperative,” panelists shared their views on the business case for considering ESG factors as well as best practices related to corporate reporting on these topics. In particular, we reiterated our expectation that companies align their public disclosures with the recommendations of the TCFD and the SASB so that investors can better assess relevant ESG considerations in the context of risk-adjusted returns.

### Russell Reynolds' 2020 Global and Regional Trends – Sao Paulo, Brazil

BIS participated as a keynote speaker in an event hosted by Russell Reynolds, which highlighted global and regional corporate governance trends. We provided an overview of BIS' engagement approach and discussed Chairman and CEO Larry Fink's 2020 Letter to CEOs within the context of the Brazilian market. The audience – which consisted primarily of board representatives from a range of Brazilian companies – subsequently took part in a dynamic Q&A session to better understand our perspective on topics such as board quality and climate risks and opportunities.

## Europe, Middle East, and Africa (EMEA)

### Board directors leading for the future – Norway

BIS presented at a conference held in Oslo in February 2020 by the FutureBoards network. This is a network of international corporate governance professionals whose stated aim is to be a platform for exchanging experience and perspectives on how companies should be governed in the future. The conference focused on

the role of business leaders in creating sustainable value, and we shared our views on a range of topics relating to board quality and effectiveness.

### **The growing urgency of sustainability in financial services - UK**

We participated in a roundtable discussion on Sustainability and Purpose in Banking hosted by Tapestry Networks' Bank Governance Leadership Network. The event brought together sustainability leads and independent directors from major bank institutions, as well as representatives from policy and regulatory circles. The urgency around sustainability, and climate risk in particular, was acknowledged by all; however, it was agreed that substantial work still needs to be done across the sector on evaluating the risk and its impact in a coordinated manner. We shared our views that investors are looking at companies to provide better disclosure, highlighting our preference for TCFD and SASB aligned reporting. Best practices emerging in the sector include clear board and management oversight with accountable executives. Companies are also demonstrating that the sustainability strategy is being cascaded throughout the organization and incorporated in core business activities. Finally, long-term commitments need to be clear and meaningful with interim milestones and reporting on progress.

### **Incentivising management to deliver value for all stakeholders – UK**

BIS spoke on a panel focused on executive remuneration, alongside the non-executive director of a large UK company. The discussion centred on a corporate advisory firm's research on whether the US Business Roundtable's 2019 statement on purpose and the related commitments to shared value would incentivize executive remuneration to deliver value for all stakeholders. We noted that the conversations we are having with companies on pay are increasingly tied to discussions about long-term strategy. Given the growing evidence that climate change will impact companies' long-term prospects, we shared that we anticipate an acceleration of these conversations with corporates.

## **Asia-Pacific (APAC)**

### **CGI Glass Lewis & Guerdon Associates Annual Governance & Remuneration Forum 2020 – Australia**

BIS spoke on a panel regarding executive remuneration hosted by CGI Glass Lewis & Guerdon Associates in Sydney. The panel participants shared views on the current trends and issues in remuneration frameworks. Discussion focused on how boards could actively and regularly exercise and disclose discretionary judgement for executive incentives. The panel also discussed ways to incorporate non-financial measures into executive remuneration outcomes. The audience included various key stakeholders across the industry including board directors, institutional investors, company executives and regulators.

### **UBS Greater China Conference – China**

BIS attended a panel discussion titled "Sustainability and impact: What do investors want and what do they need?" The team shared its approach to investment stewardship, company engagements, and expectations for corporate ESG reporting. The panel included speakers from the asset management industry and company representatives, and was attended by both companies and investors in the region.

### **Hong Kong Institute of Chartered Secretaries, The Chartered Governance Institute and Freshfields – Women on Boards – Hong Kong**

BIS spoke on a panel about female representation on boards that was organized by the Hong Kong Institute of Chartered Secretaries, the Thought Leadership Committee of the Chartered Governance Institute (CGI), and

the legal firm, Freshfields Bruchkhaus Deringer LP. The audience included approximately one hundred corporate secretaries and related professionals.

### **KPMG, Hong Kong Institute of Chartered Secretaries and China Light and Power Seminar launching joint ESG disclosure report**

BIS participated on a panel around ESG disclosures. The seminar, attended by approximately one hundred accountants and corporate secretaries, highlighted the increased ESG responsibilities of boards due to the new ESG disclosure requirements for Hong Kong which comes into effect in July 2020.

### **India's Institute of Directors 2020 Global Convention on Board Leadership and Risk Management – Singapore**

BIS spoke on a panel titled “Governance of Risk for a Resilient Enterprise.” The audience included approximately 150 board members and other related professionals from India and Singapore. The panel, part of a two-day conference in Singapore organized by India's Institute of Directors, provided an opportunity for us to share our views on the importance of companies having truly independent boards to exercise appropriate oversight over management and corporate strategy.

### **Singapore Institute of Directors – Listed Entity Director Program – Singapore**

BIS spoke on a panel hosted by the Singapore Institute of Directors during a training program for registered directors of listed entities in Singapore. The panel was focused on the importance of the board's role in stakeholder engagement. BIS shared the team's views and expectations on sustainability reporting and investee company board practices generally.

### **Morrow Sodali – Korean Masterclass in Seoul – South Korea**

BIS spoke on a panel hosted by the corporate governance advisory firm Morrow Sodali for its corporate clients in Korea. Representatives from approximately 70 corporate issuers in Korea attended. The panel covered the growth of shareholder activism in the region, the importance of ongoing shareholder engagements, and rising interest in ESG considerations within the Korean investment community.



# Market Development and Trends

## Americas

### Proxy process reform

In February, BlackRock commented on the Securities and Exchange Commission's (SEC) continued efforts to advance proxy process reform, particularly as it relates to the SEC's proposed amendments to Exemptions from the Proxy Rules for Proxy Voting Advice (File No. S7-22-19) and Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8 (File No. S7-23-19). We suggested that proxy process reform should reflect certain guiding principles, with the goal of simplifying the process rather than adding complexity. These principles include the promotion of 1) transparency to encourage market integrity and reduce conflicts; 2) accurate information, which is critical to decision making; and 3) balancing the rights of all shareholders.

## Europe, Middle East, and Africa (EMEA)

### Dividend payments and share buybacks

On March 27, 2020, the European Central Bank (ECB) recommended that banks refrain from making dividend distributions and performing share buybacks until October 2020.<sup>13</sup> The ECB recommendations are intended to preserve capital and boost banks' capacity to support lending to households, small businesses and corporates during the COVID-19 pandemic. Similarly, the UK's Prudential Regulatory Authority (PRA)<sup>14</sup> announced on March 31 its expectations that large UK banks suspend dividends and buybacks on ordinary shares until the end of 2020, and cancel payments of any outstanding 2019 dividends. The PRA also expects banks not to pay any cash bonuses to senior staff. Companies in other sectors throughout Europe will be similarly impacted as government stimulus packages are expected to explicitly restrict the ability of companies taking government support to pay dividends, buy back shares and, in some cases, pay executive incentives, particularly cash bonuses. The French and German governments, for instance, recently announced plans to prohibit or seek the suspension of dividends payments to companies receiving state funding.<sup>15</sup>

## Asia-Pacific (APAC)

### Japan: Japan Stewardship Code revision and consultation

The Council of Experts on the Stewardship Code published the revision draft of Japan's Stewardship Code (The revised Code draft) and has put the draft up for public consultation in January 2020. The proposed changes in revised code includes:

- Consideration of sustainability (medium- to long-term sustainability including ESG factors) in line with the investment management strategy.
- Enhancing disclosure, including the disclosure of vote rationale

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<sup>13</sup> <https://www.bankingsupervision.europa.eu/press/pr/date/2020/html/ssm.pr200327~d4d8f81a53.en.html>

<sup>14</sup> <https://www.bankofengland.co.uk/prudential-regulation/publication/2020/pra-statement-on-deposit-takers-approach-to-dividend-payments-share-buybacks-and-cash-bonuses>

<sup>15</sup> <https://www.euractiv.com/section/economy-jobs/news/france-puts-dividends-payments-into-confinement-amid-covid-19-crisis/> and <https://www.bloomberg.com/news/articles/2020-03-30/germany-asks-companies-to-suspend-dividends-for-coronavirus-aid>

- Application of the Code towards asset classes other than publicly listed equities

BlackRock supports the intent of the revised Code draft, in particular the revision to the Code to make explicit the importance of considering sustainability issues, including material ESG factors that may impact a company's the long-term growth, and for these material factors to be integrated into investment management strategies. BlackRock is also supportive of enhancing transparency which may contribute to shareholders' ability to constructively engage with investee companies. BlackRock understands and supports the aim of the proposal to apply the Code to other asset classes. We note, however, that the rights and responsibilities of investors in other securities and asset classes differ significantly from those of shareholders. Further discussion may be necessary to clarify what stewardship activities for investors in other assets besides publicly traded equities will mean in practice.

In response [BlackRock submitted a comment letter to the public consultation](#).

### **Hong Kong: HKEX consultation on corporate weighted voting rights**

The Hong Kong Exchanges and Clearing Limited (HKEX) published [a consultation paper](#) in January 2020 to solicit market feedback on a proposal to extend its current Weighted Voting Rights (WVR) regime to permit corporates to benefit from WVR, subject to additional conditions and investor safeguards.

As stated in our 2018 response to the [earlier consultation](#) by HKEX, BlackRock supports the "One-Share One-Vote" principle and is concerned about the potential risks associated with WVR structures to non-controlling shareholders. BIS has emphasized this perspective in other responses to consultations in other markets and in position papers on weighted voting rights. If exchanges in the region determine to allow companies to issue shares with different voting rights, we expect them to provide adequate safeguards for all investors. BIS will provide our response to the HKEX ahead of the 1 May 2020 deadline.

### **China: CSRC loosens equity refinancing rule**

In February, the China Securities Regulatory Commission (CSRC) loosened the equity refinancing rule with the aim to help listed companies "better serve the real economy and combat the coronavirus epidemic". The revised rule permits companies listed in Shanghai or Shenzhen to have greater flexibility in pricing shares for private placement in a bid to attract strategic investors.

The key revisions include:

- Remove profitability and leverage ratio requirements for ChiNext-listed companies for new share issuance via private placement;
- Allow new shares to be priced against the board announcement date in addition to the first date of the share issuance period, essentially permitting companies to fix the issue price at the time of announcement;
- Lower the minimum issue price from 90% to 80% of the benchmark price;
- Halve the lock-up period for both affiliated and unaffiliated investor from 36 months and 12 months to 18 months and 6 months, respectively; and
- Increase the maximum issue size from 20% to 30% of the company's total shares outstanding.

The revision was announced with immediate effect. Companies wishing to take advantage of the revised refinancing rule could either amend their existing share private placement scheme to incorporate the above changes, or to announce a new scheme, both of which are subject to shareholder approval. BIS will continue to review share issuance schemes on a case-by-case basis, and we expect issuers to justify in detail the additional discount offered to strategic investors under the new regulation.

## **China: New securities law**

The new Securities Law came into effect on 1 March. The revised law sets the legal basis for the nation to gradually transit its initial public offering (IPO) system from being approval-based to now a registration-based procedure. This is seen as an integral part of the overall market-oriented reform. In addition, the revision substantially increases the monetary penalties for violations by companies or individuals found to have engaged in activities such as financial fraud, misrepresentation or incomplete information disclosure.

Under the registration-based IPO system, the China Securities and Regulatory Commission (CSRC) will no longer examine the business viability of each listing applicant when approving its IPO request. Instead, the Stock Exchange and the underwriter are entrusted with the responsibility to ensure the completeness of the filing document while investors will ultimately determine the success or failure of an IPO. This could well involve greater risks in particular for retail investors who may not have the required expertise when making investing decisions regarding new listings.

## **India: New foreign ownership limits but discretion with companies to have lower limits**

The 2019-2020 Budget of the Indian government announced last October raised the limits on foreign portfolio investors (FPIs) ownership, which comes into effect 1 April 2020. The previous foreign ownership limits, generally between 20% and 50% for respective sectors, would be raised to as much as 100%, in effect removing the foreign ownership cap for a number of sectors e.g. non-bank financial institutions, pharmaceuticals, plantations, mining, oil & gas, manufacturing, broadcasting, e-Commerce. Aggregate ownership limits for foreign portfolio investors, however, will still apply for other sectors but will generally be higher than previously. For instance, the FPI limit for multi-brand retailing is raised from 49% to 51%, while the foreign ownership limit on private sector banks is set at 74% although for public-sector banks remains at 20%.

The higher sectoral foreign ownership limits will apply automatically for companies in these sectors even if they do not have a shareholder meeting to approve these. However, companies may, before 31 March, set their foreign ownership limit at a lower level than permitted for the sector but to be specified at either 24%, 49%, or 74%. A number of Indian companies are having special meetings to set their foreign ownership limit at one of the lower levels permitted rather than taking it up to the maximum allowable by the authorities for their sectors.

BIS believes that allowing FPIs to own a higher percentage of the companies is generally positive as it will not constrain the potential for international investors to have access to the market and relevant sectors; it is similarly positive for local investors as higher foreign interest will have a positive impact on valuations over the longer-term by not limiting the potential buyers for the stock. We are thus voting against foreign limits set by any company at below the maximum allowable by the authorities for the respective sectors.

## **Singapore: SGX RegCo's new measures for holding general meetings amidst COVID-19**

Amidst the COVID-19 outbreak, the Singapore Exchange (SGX) announced several measures aimed at assisting issuers during these challenging times, including a time extension of two months for issuers with 31 December financial year-end to hold their annual general meetings (AGMs) by 30 June 2020.

Issuers interested in getting a waiver from Listing Rule 707(1) – which stipulates that an issuer must hold its annual general meeting within four months from the end of its financial year – must notify SGX, and once granted, are to announce via SGXNet its waiver, the indicative timeline to convene their AGM, and the confirmation of compliance with waiver conditions. Issuers must continue to issue their annual reports to shareholders and the Exchange by 15 April 2020, and subsequently provide the requisite AGM notice of at least 14 days.

In consultation with the Accounting and Corporate Regulatory Authority (ACRA) and the Monetary Authority of Singapore (MAS), the SGX has also provided guidance for issuers who will be holding their general meetings. This includes measures to implement temperature and health screening on attendees; reduce the scale of the general meeting at any one venue to below 250 people. If more people are anticipated to attend, shareholders must be provided alternative arrangements for instance, webcasts. Issuers could also organize prior virtual information sessions before general meetings and allow shareholders to submit questions in advance.

### **Taiwan: Continued enhancements on corporate governance practices and ESG reporting**

Following the amended “Regulations Governing Information to be Published in Annual Reports of Public Companies” published by the Taiwan Stock Exchange’s (TWSE), effective January 2020 all listed companies on the Exchange will be required to disclose climate risk related information in their annual reports. The amended rules governing filing of corporate social responsibility reports incorporates the TCFD recommendations, requesting companies to disclose, evaluate, and set targets in order to manage material risks related to climate change. The newly introduced Corporate Governance Best Practice Principles for Listed Companies recommends companies establish a nomination committee, adopt more stringent stock trading control measures for insiders, and implement an intellectual property management system.

### **Taiwan: Consultation on Stewardship Principles for Institutional Investors**

The Taiwan Stock Exchange Corporation (TWSE) published a consultation paper in March to solicit market feedback on the proposed revision of the Stewardship Principles for Institutional Investors first published in 2016. The revision makes explicit the importance of considering sustainability issues material to the long-term growth and mid- to long term value creation of companies, and for this to be integrated into investment management strategies.

BlackRock is supportive of the proposals generally while providing feedback regarding collaborative engagement and stewardship responsibilities. The proposed guideline suggests investors conduct collaborative engagement on ESG issues where this is necessary. While we agree collaborative engagement is effective in some cases, however there are regulatory constraints on collaborative engagement for companies with securities listed in foreign markets that large institutional investors also need to observe. We noted as well that the responsibility for stewardship should be the same for all institutional investors irrespective of the investment time horizon, thus we recommend in our response that the Exchange not differentiate the stewardship responsibilities of investors pursuing active and index or passive strategies.

Our response to the TWSE consultation is available [here](#).

# Appendix

## Proposal Terminology Explained:

### Management Proposals

**Anti-takeover and Related Proposals** – proposals concerning shareholder rights, the adoption of “poison pills”, and thresholds for approval, among others.

**Capitalization** – generally involves authorizations for stock issuances, private placements, stock splits, and conversions of securities.

**Election of Directors and Related Proposals** – a broad category which includes the election of directors, supervisory board matters, declassification of boards, implementation of majority voting, among others.

**Non-salary Compensation** – covers shareholder approvals of compensation related matters like advisory or binding votes on remuneration, omnibus stock plans, vote frequency, and special compensation situations.

**Mergers, Acquisitions, and Reorganizations** – involves significant transactions requiring shareholder approval like spin-offs and asset sales, as well as changes to company jurisdiction or structure.

**Routine Business** – covers formal approvals of reports, name changes, and technical bylaws, among many others.

### Shareholder Proposals

**Compensation** – compensation, perquisites, and other executive compensation policies.

**Corporate Governance** – key corporate governance matters affecting shareholders rights including governance mechanisms and related article/bylaw amendments.

**Election of Directors and Related Proposals** – elections to the board of directors, and other governance provisions related to the board.

**Miscellaneous business** – resolutions regarding social and environmental matters that may have an impact on company operations, including shareholder proposals relating to procedural matters.

We observe that there are a substantial number of shareholder proposals in the Asia-Pacific (ex-Japan) region relative to other markets. This is due to the China Securities Regulatory Commission (CSRC) requiring companies that have a foreign listing to submit their proposals 45 days prior to the meeting (which applies to all Chinese companies that have an A-share listing in China together with H-shares listed in Hong Kong). However, the CSRC allows shareholder proposals for these companies to be included up to 10 days prior to the meeting. The result is that many shareholder proposals are submitted by controlling shareholders and are, in reality, late agenda items from management.

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