



Q1

2017

INVESTMENT STEWARDSHIP:  
AMERICAS

**BLACKROCK®**



BUILDING CONNECTIONS  
*for the long term*

# Table of Contents

- Engagement with Issuers and Statistics
- Voting Highlights and Statistics
- Active Ownership and Responsible Leadership
- Market Development and Trends

# Engagement with Issuers<sup>1</sup> and Statistics

## Americas Engagement Statistics<sup>2</sup>

Number of engagements	Level of Engagement <sup>3</sup>			Topics Discussed		
	Basic	Moderate	Extensive	Environmental	Social	Governance
56	36	12	8	5	11	53

We continue to engage with companies on matters of governance and leadership with an emphasis on long-term value and board leadership, and BlackRock's Investment Stewardship ("BIS Americas") conducted approximately 56 company engagements in the first quarter. These discussions typically focused on corporate strategy, board composition and skills, executive compensation, bylaw amendments, issues related to capital structure and executive succession planning, and sustainability reporting, among other matters. We believe that this private, issues-based dialogue is helpful in building mutual understanding, and can better position us to effectively engage on behalf of clients in the event of some future concern regarding a particular corporate governance issue or proxy proposal. The below examples reflect engagements that merited particular focus on environmental, social and governance ("ESG") considerations. We aim to frame our engagements in the context of long-term value creation.

**1** We participated in two company-stakeholder engagements coordinated by Ceres. One was with an energy company that is transitioning its generation to be less carbon intensive. The focus of the discussion was on the challenges and opportunities in implementing a long-term strategy to transition to a low carbon economy. The role of public policy in shaping such a strategy, particularly the Clean Power Plan and the potential for a carbon tax, was a focus. The other was with a financial company on its plans to report to the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures. The discussion focused on investor expectations of such disclosures and the challenges with presenting the data and contextual information in a manner consistent with both the way a business is actually managed and in line with explaining the business impact of the policy goal (under the Paris Accord) to achieve a 2 degree scenario.

<sup>1</sup> The companies referred to are for illustrative purposes only and not a recommendation of any particular securities.

<sup>2</sup> The Americas Engagement Statistic Report is a reflection of 1st Quarter 2017.

<sup>3</sup> Basic engagement is generally a single conversation on a routine matter; Moderate engagement is technically more complex and generally involves more than one meeting; Extensive engagement is technically complex, high profile and involves numerous meetings over a longer time frame.

2 We engaged an independent director of a global energy company in Brazil to discuss a major bribery scandal at the company that led to significant board and management turnover, and the associated process to ensure minority shareholder representation on the board. Although the qualifications of a recent shareholder nominee were, in our view, sound, local investors insinuated that the company may have circumvented the proper director nomination process. Overall, significant improvements have been made with regard to the director nomination process, including requirements for appropriate skill set, technical background, and independence from conflicts of interest. Improvements concerning the nomination process are particularly relevant as the company faced challenges in 2012 with the surprise election of government-backed candidates to board seats specifically reserved for minority shareholder representatives. The company representatives assured us of the independence of the nomination process for minority shareholder director candidates going forward. Although we are encouraged by the improvements at the company, we will continue to monitor the situation given the significant changes to the board and management team and our ongoing review of the minority shareholder nomination process.

3 We engaged with senior leaders of a large cap technology company to understand how diversity considerations are incorporated into the company's planning and oversight structures and broader business strategy. Particularly, we sought to learn more about the company's views on human capital management, diversity in leadership, and gender pay equity. The company has historically faced questions over the composition of its board and senior management. Over the years, our concerns have been addressed through the addition of women and minority directors, as well as two new women executives. We learned about considerations for future additions, both in terms of the refreshment of perspectives and the technology and leadership skills sought by the company. We asked about metrics used to monitor hiring, retention, and attrition, and heard from the company about training, wellness, and development initiatives. Our long term aim on this issue is to support the company's innovation and competitiveness by remaining a best-in-class corporate destination for new talent. At both the board and company levels, the nominating/governance committee oversees diversity initiatives, while the compensation committee looks at the internal pay equity. We observed potential benefits from these two committees collaborating on these issues, as well as the inclusion of these topics in the company's Enterprise Risk Management (ERM) assessments. We will continue engaging on these issues to further understand relevant risks and opportunities.

4 We engaged with several real estate companies with regard to relevant state law in Maryland, where many REITs are incorporated. We frequently discuss technical governance details with companies, such as various implications of the Maryland Unsolicited Takeover Act (MUTA). The focus of these particular discussions related to the ability to amend company bylaws. While many other jurisdictions allow for both boards and shareholders to amend bylaws, in Maryland the board retains the exclusive right. Within the context of board accountability, we heard directors' views about the appropriate process and transparency around maintaining corporate bylaws. We offered our views on issues that might reasonably require shareholder

input. On balance, absent a unilateral bylaw change that appears to materially diminish shareholder rights, we will continue to support the election of directors. We expect boards to regularly consider how corporate governing documents align with the best interests of shareholders.

6 We engaged with the independent chairman of an international financial services company for the second time since the 2016 announcement of fraudulent sales practices that has led to a range of fines, investigations, leadership changes and other issues. We checked in on company culture, management incentives, internal controls, and the board's investigation into the matter. We were particularly interested in the extent of cultural change required and how the company and board go about measuring culture. We also received an update on the company's revised approach to employee incentives, efforts to roll out the new plan, and alignment of revised metrics with long-term value creation. We anticipate further engagement over time.

# Voting Highlights and Statistics

## Americas Region Voting Statistics<sup>4</sup>

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
USA	361	2553	22%	7%
Canada	34	255	21%	2%
Latin and South America	119	713	60%	24%
Americas Region Total	514	3521	31%	10%

In the Americas, the first quarter typically sees reduced volume of proxy voting. As such, most of our engagements are related to exchanging views on governance matters and gaining greater understanding of the risks faced by our portfolio companies. Corporate strategy, culture, capital allocation, environmental and social aspects of business operations, and executive compensation were the most frequently discussed topics during the quarter.

- 1 We engaged a director of an automobile company to request clarification around the issue of his independence on the board. We had historically voted against this director, as well as other members of the board, for conducting related party transactions with management while sitting on key committees of the board, which we believe should be entirely independent. We also expressed the view that sitting on multiple boards with the same CEO may heighten perceptions of excessive affiliations and potential conflicts of interest. The director reiterated that he felt sufficiently independent; empowered to raise critical questions and to highlight any issues or concerns to the CEO, despite his outside affiliations. We also asked about the classified board structure, sought to understand the perceived benefits from the board's perspective, and enquired if this governance structure is being reviewed. BlackRock first engaged on this issue in 2014, given that the company continues to be an outlier within their industry; the company is 23% owned by the CEO, and we emphasized our view that annual election of directors helps foster board accountability.

<sup>4</sup> The Americas Statistic Report is a reflection of 1st Quarter 2017 and sourced from ISS Proxy Exchange on April 4, 2017.

## 2

We engaged with an industrial company that specializes in manufacturing and developing process control systems regarding a shareholder proposal requesting company-wide greenhouse gas (GHG) emissions reduction targets. Through engagement, the company explained that an individualized focus on specific business units, rather than the company-wide mandates suggested by the shareholder proposal, allowed for greater aggregate GHG reductions. As a result, focusing on a regional and site-specific basis has allowed the company to reduce its emissions by approximately 45% over the last ten years. Additionally, the company demonstrated keen attentiveness to the importance of considering climate change risk alongside its business outlook. For example, the company highlights this focus through reporting of emissions data to the CDP (formerly the "Carbon Disclosure Project"). It has also incorporated shareholder feedback for greater transparency by posting information in a newly expanded corporate social responsibility (CSR) report on the company website. Noting significant reporting improvement, continued commitment to shareholder input, and appropriate oversight for the risks related to GHG emissions and climate change, BlackRock will continue to monitor the company, but did not find support of the shareholder proposal warranted.

# Active Ownership and Responsible Leadership

## Thought Leadership

Each year BlackRock's CEO Larry Fink sends a letter to the CEOs of large public companies on issues of corporate governance and long-termism. Last year, the letter urged companies to develop a strategic framework for long-term value creation, in order to give shareholders and the markets greater clarity about the company's plans for the future. The letter also asked that boards review those plans. The 2016 letter also noted that companies can also better report on, and explain how they are addressing the long-term risks and opportunities relating to the ESG factors inherent in their businesses.

This year's letter is written in the context of the significant upheavals that took place in 2016, including the backlash against globalization. The letter asks how these changes affect companies' long-term strategic plans and discusses how companies must be responsive to their full set of stakeholders, including employees.

As in past years, Larry Fink's letter stresses our role as fiduciaries acting on behalf of long-term shareholders and highlights our focus on issues of corporate governance. He writes, "We look to see that a company is attuned to the key factors that contribute to long-term growth: sustainability of the business model and its operations, attention to external and environmental factors that could impact the company, and recognition of the company's role as a member of the communities in which it operates."

In relation to the Stewardship team's work, this year's letter notes, "a long-term approach should not be confused with an infinitely patient one. When BlackRock does not see progress despite ongoing engagement, or companies are insufficiently responsive to our efforts to protect our clients' long-term economic interests, we will not hesitate to exercise our right to vote against incumbent directors or misaligned executive compensation."

# Active Ownership and Responsible Leadership

Feedback suggest these messages resonate with corporate leaders around the world. The most consistent feedback is that it is helpful to companies to know they have the support of a long-term investor in taking decisions that will have a payoff down the road but require sacrifices in the near term.

## **2017-2018 Investment Stewardship engagement priorities**

On March 13, 2017, BlackRock's Investment Stewardship team released its 2017-2018 engagement priorities, accessible within the "Engagement" discussion of the [Stewardship homepage](#). We released these priorities due to increased level of interest in BlackRock's role as a large investor in public companies. By explaining the topics on which we intend to focus, we aim to better inform our clients on our Stewardship work and to help companies prepare for engagement with us to enhance the impact of our engagements.

The themes for our five engagement priorities have, to varying degrees, been mentioned in Larry Fink's recent letters to CEOs.

*Governance* - a perennial issue for the team is board composition, effectiveness and accountability. In particular this year, we will seek engagement where we believe boards have not adequately fulfilled their duties to shareholders as well as where there is insufficient diversity, particular in terms of women directors. We also explain our position on "climate competent boards" (a recent concept), namely that we expect the whole board to have demonstrable fluency in how climate risk affects the business, as we would with any material, business-specific risk.

*Corporate strategy* - as explained in Larry Fink's 2017 letter, we will engage to understand how a company might need to adapt its strategy in light of the changing business environment, especially where the explanation of the long-term business model is poor.

*Compensation* - we expect companies to persuasively demonstrate the connection between long-term strategy, performance goals in incentive pay and long-term value creation. Where this is lacking, we will engage and potentially vote against directors who have not credibly explained and justified the company's approach.

*Climate risk disclosure* - we explain our support for the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures and our intention to engage companies in sectors most exposed to climate risk to encourage them to consider reporting consistent with the recommendations in due course.

Concurrent to the publication of our priorities, we also released a supplemental document (within this section of the priorities) entitled, "[How BlackRock Investment Stewardship engages on climate risk](#)" that elucidates how we have and will continue to engage boards on climate risk and sets forth our expectations.

# Active Ownership and Responsible Leadership

*Human capital management* - we note that companies have responsibilities to their workforce and, in a talent constrained environment, managing human capital well is important. It includes robust employment practices and supply chain management. Ultimately, these factors can be material factors that contributes to a firm's competitive advantage but, more broadly, provide a signal of management's overall quality and effectiveness.

## **UN Sustainable Stock Exchange Initiative Working Group (SSE IWG)**

We participated in a group engagement to encourage NYSE/Intercontinental Exchange and Nasdaq to adopt material ESG disclosures as listing requirements. In 2016, we wrote to the chair of the Sustainability Working Group of the World Federation of Exchanges to encourage member exchanges, including Nasdaq and NYSE, to introduce material ESG disclosure listing requirements. In this meeting, we reiterated our views that stock exchanges have a critical role in facilitating company disclosure of decision-useful information to investors in a way that eliminates undue burden on individual issuers or industries. The morning of our meeting with Nasdaq and NYSE, NYSE announced public support for the Sustainable Stock Exchanges Initiative. NYSE also encouraged listed companies to disclose sustainability information and referred issuers to established frameworks for disclosure, such as the Sustainability Accounting Standard Board (SASB). Nasdaq, for its part, released an ESG Reporting Guide for issuers listed on Nasdaq's Nordic and Baltic markets.

## **Sustainability Accounting Standard Board (SASB) company engagements**

We wrote to 32 U.S.-listed companies asking them to participate in a consultation with SASB. We asked the companies to engage directly with SASB to share their perspectives on which ESG issues and metrics are relevant to their businesses and cost-effective to disclose. The consultation was a deliberate step in the rigorous process SASB follows to issue guidance for reporting sustainability information in financial filings. SASB's approach to determining which metrics and topics are likely to be material and which ESG metrics are relevant to a specific industry depends wholly on consensus feedback from investors and issuers (plus other advisors including accounting and legal experts). The objective of the consultation was to ensure SASB's industry standards considered the corporate perspective on market developments including shifting competitive dynamics within an industry, evolving interests of the reasonable investor, and changes in the sustainability landscape.

We conducted this outreach in collaboration with representatives from other asset managers and asset owners who are also members of the SASB Investor Advisory Group (IAG). Michelle Edkins, the Global Head of Investment Stewardship at BlackRock, is a member of the IAG. The IAG decided which companies to contact based on feedback already received by SASB, industries which would benefit from additional issuer input, and corporate size by revenue.

# Active Ownership and Responsible Leadership

At the time of publication, we had heard from 24 companies. Sixteen agreed to engage directly with SASB, and three more were considering direct engagement. Two companies gave feedback through industry organizations, three declined, and eight did not respond to our outreach. The views of the 16 companies who responded affirmatively to our outreach will be combined with more than 235 companies representing at least \$12.4 trillion in market cap whom SASB has already engaged.

We will be encouraging issuers to disclose material ESG factors using the relevant SASB standards when the standards are codified.

## **30% Club US**

BlackRock is a member of the 30% Club US, a chairmen-led, market initiative to increase the number of women on U.S. boards. We participated in the March Steering Committee meeting at which we outlined our board diversity engagement priority for 2017. We have been engaging U.S. corporate boards for several years on the need for diversity in the boardroom. Progress has been glacially slow and more than half of U.S. boards still have only one or no women directors. We will be writing to the nomination and governance committee chairmen of those companies, again making the case for board diversity and explaining that we expect them to publish an explicit plan to remedy the situation and that, in time, we would vote against the re-election of committee members where progress is inadequate.

## **Organization for Economic Co-operation and Development (OECD) Advisory Group**

Investment Stewardship's leadership has over the past two years been an active member of the OECD Advisory Group formed to work with the OECD Secretariat which recently [published](#) *Responsible business conduct for institutional investors: Key considerations for institutional investors in carrying out due diligence under the OECD Guidelines for Multinational Enterprises*.

The guidance articulates how investors (asset managers and owners, private equity investors, banks, and insurers) can meet the requirements of the OECD's Guidelines for Responsible Business Conduct for Multi-National Enterprises (or RBC for MNEs). These efforts reflect our continued active participation in developing a policy framework that enables the work of our team, in this instance in relation to engagements to promote sound business practices where companies have material social and environmental impacts.

## **Antibiotic use in agriculture**

We hosted an event with NGO Farm Animal Investment Risk and Research (FAIRR) to discuss antibiotic use in agriculture and thus the food chain. Two key note speakers, Dr Lance Price, Director of Antibiotic Resistance Action Centre at

# Active Ownership and Responsible Leadership

the Milken Institute School of Public Health at the George Washington University, and Erik Olson, of the Natural Resources Defense Council (NRDC), set the stage for an interesting panel and audience discussion. FAIRR also explained the engagement that they have been coordinating with companies in the food production and distribution sectors. Transitioning food production methods to minimize the use of antibiotics will take time and there was a clear sense from the discussion that those companies that adapt early will have a competitive advantage. Demand for antibiotic-free food products is increasing, with **U.S.** consumers citing it as a more important consideration in their purchasing decisions than organic, GMO-free, free range or pesticide-free production, according to the NRDC. The insights gained through the event will help inform the BlackRock Investment Stewardship team's engagements with agricultural and food industry companies.

## Speaking Events

Members of the Investment Stewardship Americas team spoke at a number of events over the past quarter, with the objectives of furthering the public policy debate on matters deemed important to investors and/or promoting an increased understanding of BlackRock's approach to Investment Stewardship. We target events that enable us to connect with key stakeholders and thought leaders, including corporate directors, senior members of management teams, and other shareholders.

Below is a list of select speaking events from the quarter, and subject matter covered:

### ➤ **Cyber Risk Governance Conference – New York**

We presented on a panel covering shareholder engagement and institutional investor expectations with regards to cybersecurity disclosure. We discussed differentiating between company audiences (management vs. board vs. in-house experts) and shared examples of disclosed practices that have helped us gain insights into the company's management of this risk. Lastly, we offered questions that investors can ask companies to begin a dialogue on the topic.

### ➤ **Private Director Forum Panel – Miami**

We spoke at a private forum attended by over 60 Fortune 500 board directors as part of a shareholder panel. In our comments we made five key points, namely, that board quality and accountability has always been our top governance focus; that board diversity is an imperative; that index investors are the ultimate long-term shareholders and providers of the patient capital that most companies say they are seeking; that directors need to be management's first line of defense against short-term pressures; and that director-shareholder engagement pays dividends when shareholders do not consider management the appropriate party to explain a

# Active Ownership and Responsible Leadership

company's approach to an issue. We value participating in these types of events where we get to address directors on governance issues outside the pressure-cooker period of the shareholder meeting season. In our experience, it helps build mutual understanding and the lines of communication that make engagement an effective feedback mechanism between shareholders and the companies in which they invest.

## ➤ **Reuters Newsmaker event “The Future of Shareholder Activism” – New York**

We spoke on a panel with two activist hedge fund investors and a corporate advisor, to an audience of executives, journalists, corporate advisors, and members of the public. Our remarks focused on expectations of boards in relation to board composition, refreshment, and gender diversity. We expressed our views about the evolving nature of engagement between shareholders and companies both in the normal course and during an activist engagement. We laid out our expectation that environmental and social aspects of business will increasingly be topics of engagement by traditional investors. We also noted our expectations of boards to evolve foundational governance and capital structures over time, including where there are dual share class structures, in line with the economic interests of long-term shareholders.

# Market Developments and Trends

## United States

### U.S. Stewardship Framework

In January 2017, the Investor Stewardship Group (ISG) – a collective of U.S. and international institutional investors that in aggregate invest over \$17 trillion in the U.S. equity markets – launched the Framework for U.S. Stewardship and Governance (the “Framework”). BlackRock is a founding signatory. The Framework comprises a set of stewardship principles for institutional investors and corporate governance principles for U.S. listed companies. The Framework is consistent with BlackRock’s existing corporate governance Principles and proxy voting guidelines, reflects the common corporate governance beliefs that are embedded in each member’s proxy voting and engagement guidelines, and is designed in part to establish a foundational set of investor expectations about corporate governance practices in U.S. publicly-listed companies. The legal and regulatory structure in the U.S. is unlikely to lead to similar codes that have been developed in other major markets, thus spurring this investor-led initiative. More information is available [here](#).

### ERISA “clarification”

On December 29, 2016, the Department of Labor (DOL) issued an Interpretive Bulletin on Title I of the Employee Retirement Income Security Act of 1974 (ERISA). The Bulletin withdraws an earlier 2008 DOL guidance, and reinstates and modifies an earlier 1994 stance that is more openly supportive of proxy voting and engagement. The DOL maintains that its longstanding position has been that the fiduciary duty involved in managing plan assets encompasses decisions on the voting of proxies and other exercises of shareholder rights. Since 2008, ERISA Plan fiduciaries believed that before exercising shareholder rights, they first had to

# Market Developments and Trends

perform a cost-benefit analysis of each proxy vote (or exercise of shareholder rights) and then conclude that action would “more likely than not” result in a quantifiable increase in the economic value of the plan’s investment. By emphasizing a cost-benefit analysis, plan fiduciaries were discouraged from taking a long term view of investments as expressed through voting proxies, establishing proxy voting policy, or otherwise exercising rights as shareholders, including on ESG issues. DOL clarified that a cost-benefit analysis would not be required in most cases and that “[p]roxies should be voted as part of the process of managing the plan’s investment in company stock . . .” The DOL also noted that proxy voting and other shareholder engagement need not involve a significant expenditure of funds by individual plan investors since institutional investment managers vote proxies pursuant to ERISA guidelines and also make use of proxy advisory firms to limit costs. The DOL also noted that many public pension plans and institutional investors have been incorporating ESG considerations into their decision-making for years, and that regulators, including the Securities and Exchange Commission (SEC), now require ESG disclosures. As such, material ESG factors should not only be permissible considerations when developing statements of investment policy, but that trustees of ERISA plans may wish to review their proxy voting policies, statements of investment policy and investment manager contracts to ensure that they incorporate these considerations.

## **How a plane creates personal ties**

In *Sandys v. Pincus*, No. 157, 2016 (Del. Dec. 5, 2016), the Delaware Supreme Court issued an unusual split ruling which sheds further light on questions of director independence. In *Sandys*, plaintiff alleged that managers and directors at Zynga – including its former CEO, Chairman, and controlling stockholder Mark Pincus – were given an exemption to the company’s standing rule preventing sales by insiders until three days after an earnings announcement, and that Zynga insiders sold millions of shares on inside information leading to the decline of Zynga’s market price. Plaintiff alleged that the insiders who participated in the sale breached their fiduciary duties by trading on adverse, material non-public information and also asserted a duty of loyalty claim against the directors who approved the sale. After a decision in favor of the defense at the Chancery Court level for failure to plead with particularity, the Delaware Supreme Court, in a 4-1 split decision, found in favor of plaintiff. Chief Justice Leo Strine held that the plaintiff had in fact pleaded “particularized facts regarding three directors that create a reasonable doubt that these directors can impartially consider a demand.” The Supreme Court’s decision turned on a series of facts regarding overlapping relationships and business ventures between board directors. Notably, one of the directors in question and her husband, co-owned a private airplane with Pincus. The Court found that joint ownership of a plane was not simply a business venture, but that it signaled an “extremely close, personal bond” between the two parties which was enough to create “a pleading stage inference” that the director could not act independently of Pincus. The Court elaborated that owning an airplane together

# Market Developments and Trends

is not common, and “involves a partnership in a personal asset that is not only very expensive, but that also requires close cooperation in use, which is suggestive of detailed planning . . . [and] the type of very close personal relationship that, like family ties, one would expect to heavily influence a human’s ability to exercise impartial judgment.” The Court further noted that two other directors, both of whom were partners at a firm which owned equity in Zynga, were not independent under NASDAQ listing requirements. Chief Justice Strine opined that although “the Delaware independence standard is context specific and does not perfectly marry with the standards of the stock exchanges in all cases,” it nevertheless “creates cognitive dissonance” to presume that directors are independent when their “own colleagues will not accord them the appellation of independence[.]” Ultimately, these complex relationships led the Court to find that in the case of a company like Zynga, which has a controlling stockholder, evidence of mutually beneficial ongoing business relationships might have a material effect on the parties’ ability to act adversely toward each other. While the decision does not change the underlying legal definitions of independence, it does signal a more scrutinized look at the nature of impartiality, and should serve as a cautionary tale to boards in their decision-making.

## **Cybersecurity & boards**

The importance of attention to cybersecurity continues to grow, and with EY’s recent Global Information Security Survey finding only 38% of leaders judging their boards to have sufficient information on the subject, so does the importance of continuing education. The National Association of Corporate Directors (NACD) released a new handbook on Cyber-Risk oversight that outlines chief considerations and risks, and can be used to implement best practices in the field. Related resources are also being utilized as due diligence pertaining to cyber risk and liability has increased in the M&A process.

## **Bylaws vs. state laws**

In *Frechter v. Zier* the Delaware Court of Chancery found that despite Nutrisystem Inc’s corporate bylaws providing a two-thirds vote requirement to remove directors, shareholders have the right to follow the Delaware law affording a simple majority standard. While the ruling looks at a straightforward case it may reconcile the ambiguities that are created when corporate bylaws depart from state law.

## **Dodd-Frank**

Congress and the SEC recently reviewed the “Conflict Minerals” and “Resource Extraction Issuer” rules of the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd–Frank). These rules marked an expansion in disclosure requirements related to environmental and social factors and were long a target of business groups who argued that these disclosure requirements pertain to policy issues outside of SEC’s traditional role of ensuring the orderly function of the U.S. securities markets and promoting informed investment decisions. In January,

# Market Developments and Trends

Acting Chairman of the SEC Michael S. Piwowar directed the SEC staff to reconsider the so-called “Conflict Minerals Rule” which requires companies that are registered with the SEC to disclose whether they manufacture products using Tin, Tantalum, Tungsten and gold sourced from the Democratic Republic of Congo (DRC) or adjoining countries. In adopting these Rules Congress sought to mitigate the humanitarian crisis in the DRC by cutting off sources of funding for the conflict in the region. Compliance required companies manufacturing even small amounts of the covered minerals to undertake supply-chain assessments and make subsequent disclosures with the SEC on a new Form S-D. In May 2014, the U.S. Court of Appeals for the D.C. Circuit found that the rule violated the First Amendment, partially staying compliance. Piwowar is now asking SEC staff to determine whether its 2014 guidance is still relevant and whether “any additional relief is appropriate.” Piwowar underscored that disclosure requirements have caused a *de facto* boycott of minerals from portions of Africa and that it is unclear that the rule has in fact resulted in any reduction in the power and control of armed gangs or eased the suffering of people in the Congo and surrounding areas. Similarly, in February, Congress took aim at another Dodd-Frank Rule, known as the Resource Extraction Issuer Rules. These rules compelled issuers in resource extraction industries to disclose information relating to any payment they made to a foreign government or the U.S. Federal Government for the purpose of the commercial development of oil, natural gas or minerals. Section 1504 provides further that, to the extent practicable, the rules promulgated by the SEC “shall support the commitment of the Federal Government to international transparency . . . relating to the commercial development of oil, natural gas, or minerals.” Resource extraction issuers were not required to comply with the rule until their first fiscal year ending on or after September 30, 2018. President Trump signed HJ Resolution 41 on February 14 officially invalidating the rule.

## Canada

On March 21, the Canadian Securities Administrators (CSA) announced that they will be reassessing how publicly traded companies are disclosing the risks and financial impacts posed by climate change. Canadian reporting issuers are already required to make environmental and climate related disclosures in their periodic securities filings. However, the CSA concluded that a review of the state of climate disclosure in Canada was warranted in light of the increased scrutiny reporting issuers are experiencing surrounding their climate-related disclosures. Another factor is the issuance of several voluntary disclosure frameworks, most notably, the Financial Stability Board’s Task Force on Climate-related Financial Disclosures in December 2016. The CSA disclosure project includes three primary components. CSA staff will: review international disclosure requirements and voluntary frameworks; review continuous disclosure by large reporting issuers to determine material climate-related risks and financial impacts; and, engage in consultations

# Market Developments and Trends

through anonymous surveys and focus groups on required disclosures and related costs. CSA notes that the review “will be conducted with a view to ensuring that issuers provide high quality disclosure of material information, which in turn assists investors in making informed investment and voting decisions.” The CSA expects to conduct its information gathering in spring and summer 2017 and publish a progress report outlining its findings upon completing its review. This move marks a continuing trend in the U.S. and Canada to streamline and improve corporate climate related disclosures with an eye towards underscoring material climate-related risks to assets.

## Latin America

A small but important change has been adopted by the Mexican Stock Exchange which asks for a doubling of the period of time that materials have to be available before an annual meeting. The previous 15-day period has been viewed as insufficient by many investors and will be welcomed by those who sought to review those materials in greater detail prior to casting proxy votes.

To learn more about how we are shaping global governance and protecting our clients' assets, please visit <http://www.blackrock.com/corporate/en-us/about-us/investment-stewardship>

This document contains general information only and is not intended to be relied upon as a forecast, research, investment advice, or a recommendation, offer or solicitation to buy or sell any securities or to adopt any investment strategy. The opinions expressed are as of April 4, 2017 and may change as subsequent conditions vary. The information and opinions contained in this material are derived from proprietary and non-proprietary sources deemed by BlackRock, Inc. and/or its subsidiaries (together, "BlackRock") to be reliable, are not necessarily all inclusive and are not guaranteed as to accuracy. There is no guarantee that any forecasts made will come to pass. Any investments named within this material may not necessarily be held in any accounts managed by BlackRock. Reliance upon information in this material is at the sole discretion of the reader. No part of this document may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior written consent of BlackRock. No material non-public information was solicited, offered or received in the course of the engagements described in this material. In accordance with BlackRock's conflicts management policy, the voting elections made by BlackRock are informed by BlackRock's voting policies, and all voting elections are made independently of any relationship between BlackRock and any entity whose securities are subject to a vote. Each client engagement is different, and the examples of engagements described in these materials are not necessarily representative of any or all other engagements between BlackRock and a third party or third parties.

In the EU issued by BlackRock Investment Management (UK) Limited (authorised and regulated by the Financial Conduct Authority). Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Registered in England No. 2020394. Tel: 020 7743 3000. For your protection, telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited Issued in Australia by BlackRock Investment Management (Australia) Limited ABN 13 006 165 975 AFSL 230 523 (BIMAL), who warrants by receipt of this material that they are a wholesale client as defined under the Australian Corporations Act 2001 (Cth). This material is intended only for wholesale clients and this material must not be relied or acted upon by retail clients. This material provides general information only and has not been prepared having regard to your objectives, financial situation or needs. Before making an investment decision, you need to consider whether this material is appropriate to your

objectives, financial situation and needs. This material has not been prepared specifically for Australian investors. It may contain references to dollar amounts which are not Australian dollars. It may contain financial information which is not prepared in accordance with Australian law or practices. In Singapore, this is issued by BlackRock (Singapore) Limited (Co. registration no. 200010143N). In Hong Kong, this document is issued by BlackRock Asset Management North Asia Limited and has not been reviewed by the Securities and Futures Commission of Hong Kong. For distribution in Korea for Professional Investors only (or "professional clients", as such term may apply in local jurisdictions). Investments involve risks. In Taiwan, independently operated by BlackRock Investment Management (Taiwan) Limited. Address: 28/F, No. 95, Tun Hwa South Road, Section 2, Taipei 106, Taiwan. Tel: (02)23261600. Past performance is not a guide to future performance. This material is intended for information purposes only and does not constitute investment advice or an offer or solicitation to purchase or sell in any securities, BlackRock funds or any investment strategy nor shall any securities be offered or sold to any person in any jurisdiction in which an offer, solicitation, purchase or sale would be unlawful under the securities laws of such jurisdiction. Not approved for distribution Japan. In Canada, this material is intended for permitted clients only. In Latin America this piece is intended for use with Institutional and Professional Investors only. This material is solely for educational purposes and does not constitute investment advice, or an offer or a solicitation to sell or a solicitation of an offer to buy any shares of any funds (nor shall any such shares be offered or sold to any person) in any jurisdiction within Latin America in which such an offer, solicitation, purchase or sale would be unlawful under the securities laws of that jurisdiction. If any funds are mentioned or inferred to in this material, it is possible that some or all of the funds have not been registered with the securities regulator of Brazil, Chile, Colombia, Mexico, Peru or any other securities regulator in any Latin American country, and thus, might not be publicly offered within any such country. The securities regulators of such countries have not confirmed the accuracy of any information contained herein.

© 2017 BLACKROCK, Inc. All rights reserved. BlackRock® is a registered trademark of BlackRock, Inc. or subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

**BLACKROCK®**