BLACKROCK®

INVESTMENT STEWARDSHIP REPORT: ASIA-PACIFIC

Q1 2019

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The BlackRock Investment Stewardship (BIS) team publishes quarterly reports to explain BlackRock's approach to corporate governance engagement that supports long-term value creation for our clients. The examples reported give a sense 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.

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Engagement and Voting Highlights

This quarter, we were involved in a number of high-profile situations including but not limited to contentious proxy fights in South Korea, voting related to licence fees for multinational corporation (MNC) subsidiaries in India, and engagements on sustainable plantation practices in Southeast Asia. The ramifications for the financial sector and beyond in the aftermath of the Royal Commission report dominate discussions in Australia, while quality control issues remain an area of focus in Japan. We highlight these and other cases below, as well as various public speaking engagements. Market developments include the introduction of dual class shares in China and India and the incorporation of Taskforce on Climate-related Financial Disclosures (TCFD) recommendations in Japan.

South Korea: Supporting both the company and an activist in a proxy fight

1 One year ago, a major South Korean automaker proposed a restructuring plan that involved the spin-off of certain businesses from one of its listed affiliates, which were to be acquired by another affiliate. The plan generated wide-spread investor opposition related to the fairness of the terms as well as opaqueness of the post-restructuring strategy and capital plans. Due to public and shareholder pressure, the automaker called off the restructuring plan in May 2018, shortly before the scheduled vote on the transaction.

BIS has engaged extensively with both the automaker and the wider chaebol group since the announcement of the restructuring plan in 2018, emphasizing the importance of 1) communicating with shareholders a clear strategy for the future, 2) including a shareholder return strategy in the capital plans, and 3) adding independent directors to the board who have the skills necessary to provide strategic and financial oversight.

At this year's annual general meeting (AGM), a dissident shareholder – an activist hedge fund that had vocally opposed the company's restructuring plan – lodged shareholder proposals requesting shareholders to:

- Vote against the board's year-end dividend proposal and approve a significant one-time dividend representing a payout of roughly 50% of the company's net cash;
- Vote against the board's outside director candidates and support its nominees comprised of executives with management experience in the Information and Communications Technology (ICT), fuel-cell, and aviation industries respectively; and
- Support its proposal to amend the company's articles to mandate the establishment of a Compensation Committee and a Governance Committee

The activist hedge fund argued that the company's significant net cash position and poor track record of capital management had led to a prolonged underperformance of the company's stock, and that the independent directors — predominantly comprised of academics and ex-government officials — had been inept in protecting shareholder value. According to the proposal, the one-time dividend would still leave the company with ample cash to invest, while the proposed board nominees would provide relevant skills to ensure proper oversight of management decisions going forward.

In response, the company held its first ever CEO investor day, where it for the first time announced a five-year plan and a financial roadmap that highlighted:

- Research and design (R&D) spend and capital expenditure for current business enhancements;
- Investment plans for future technologies such as mobility and artificial intelligence (AI); and
- Financial targets, including improving operating profit margin from 2.1% to 7% and return on equity (ROE) from 1.9% to 9% in five years.

The board has also nominated three new independent directors, two from the financial services industry. Management contended these new directors would enhance the investor perspective on the board, provide necessary financial discipline, and add needed expertise in corporate governance and fair-trade regulations. The board felt that the dividend requested in the shareholder proposal was excessive, as it represented a potential payout ratio of over 380% and more than the company's 5-year aggregate dividend distribution.

After multiple engagements with the activist and the company's management, and discussions with BlackRock's Fundamental Active Equity (FAE) team, BIS decided to oppose the one-time dividend proposal. Although the proposal may have been profitable to shareholders over the short term, we determined that it was not the appropriate capital allocation decision for maintaining and enhancing long-term value. Given the impact of new technology in the auto industry, BIS determined that the company should maintain its R&D reinvestment plan to remain competitive going forward. Though limited in details, the company has for the first-time disclosed a multi-year roadmap that investors can monitor, which will help hold management and the board accountable should it deviate from the announced plans and targets. Furthermore, as the company still needs to complete the suspended restructuring plan, which requires supermajority support from its shareholders, the company would have to keep true to its professed commitments to win the necessary support.

To address the valid arguments raised by the dissident shareholder on the company's historically sub-par capital efficiency, BIS concluded that it would be beneficial to add new independent directors to the board with skillsets most relevant to the company. BIS also considered the argument put forth by the company on potential conflict of interest with one of the shareholder nominees, and ultimately decided to support a combination of the slates provided by the activist and the management. Ultimately, BIS supported the election of the financial experts nominated by the board who were deemed suitable to provide much needed financial discipline and relevant perspective on the company's capital spending. BIS also supported one of the executives nominated by the dissident shareholder who would bring extensive management and board experience in industrial manufacturing.

India: Royalty caps

2 In June 2017, a committee was established to improve corporate governance practices of listed companies in India, under the chairmanship of the respected banker, Uday Kotak. The committee submitted its conclusions to the Securities and Exchange Board of India (SEBI) in October 2017. In March 2018, the SEBI announced its implementation of the recommendations.

Among these was a cap on royalty or brand payments by Indian companies to international parents. While the Kotak Committee had recommended a 5% cap on revenues, the SEBI tightened this to 2%. Companies that made royalty payments above this level after 1 April 2019 would require shareholder approval. A number of listed companies in India are thus lodging proposals at their AGMs to obtain approval from shareholders to continue with their existing arrangements where royalty and licence fees are generally above the 2% threshold.

BIS has engaged with a large consumer company that is a subsidiary of a MNC, which sent their most senior corporate representatives to meet investors. The company pays a licence fee at 3.5% of revenues in 2013 and now at 4.5%. It reached approximately US$70 million in absolute terms in the last financial year, equivalent to one-quarter of operating profits. The company was able to demonstrate the steps that led to the earlier increase in the royalty fee being approved. The parent company in Europe hired a leading consultant to determine an appropriate licensing arrangement. At the same time, the Indian subsidiary hired two local firms, one of which was the Indian unit of one of the global accounting firms, to provide a fairness review. The executive directors of the Indian listed subsidiary recused themselves when the board voted; the independent directors voted unanimously to approve the 4.5% licence agreement increase to be phased in through 20 basis point steps over five years. The view of the board was that the licence agreement is key to enabling profitable growth for the Indian listed subsidiary.

The R&D for the group, equivalent to over US$1.5 billion per year, is borne by the parent company. The parent company has a range of over 2,000 patents that its Indian subsidiary has access to under the licencing agreement. Together with technical know-how of production processes, and collaborative support of global business units for marketing purposes, the quantum of payment by the subsidiary in India could be justified at current levels.

Another MNC subsidiary in India put to shareholders a proposal to approve a royalty payment at 3.5% in an AGM held in late March. This company's proposal was put forward with little attempt to explain or justify their royalty rate other than to specify that it would be no more than 10% of profit before tax. However, the agenda item was to allow the company to maintain this higher rate into perpetuity. The BIS team is of the view that a company should provide (1) a cogent explanation of the benefits of the license or royalty payments; (2) a justification of the quantum being paid; and (3) allow a periodic review of these payments. We thus voted against the proposal by this MNC subsidiary.

Our vote on the upcoming proposals on royalty/licence fees of other Indian subsidiaries will be made on a case-by-case basis, which in some instances may justify a royalty/licence rate similar to current levels.

Southeast Asia: Engagements on sustainable plantation practices

3 To address environmental and social issues facing the palm oil industry, stakeholders including producers, downstream consumers, governments and NGOs have developed various systems to promote and certify sustainably-produced palm oil. The most globally-recognized is the Roundtable on Sustainable Palm Oil (RSPO), founded in 2004 by the World Wildlife Fund (WWF), Unilever, the Malaysian Palm Oil Association and seven other members. The RSPO held its Annual Roundtable Conference in November 2018, introducing new standards designed to address some of the shortcomings in its Principles and Criteria (P&C), such as the criteria on deforestation.

As an ongoing, multi-year effort to deepen our understanding on how palm oil companies in the region are addressing the environmental and social risks associated with, and the long-term economic prospects of, their industry, BIS engaged with seven palm oil producers - three Indonesian, two Malaysian, one Korean, and one Liberian, as well as the WWF. This is part of a larger, multi-year effort to deepen our understanding of, and encourage companies to better address, the urgent environmental and social risks associated with the palm oil industry. While most of these companies are members of the RSPO and have publicly committed to various traceability and certification targets, one of the key challenges in our engagements stems from the varying standards and definitions adopted by different companies in pursuing more sustainable palm oil production.

Some companies have a relatively captive supply chain, where fresh fruit bunch (FFB) is sourced from their own plantations and sent to their own mills for refining. In this case, traceability is not an issue. Ensuring no deforestation, no burning, no peat, and other standards that are required to be compliant with certification schemes is relatively simple. However, most palm oil companies, particularly the larger producers in Indonesia, have a highly diversified supply network in which FFB produced by a large number of smallholders, third-party plantations, or aggregated by third-party agents ends up in the supply chain. Crude palm oil and crude palm kernel oil refined at third-party mills are also introduced into the supply chain at the mill level for further processing. Given this level of complexity, company commitments on “100% traceability” can ultimately mean very different things. Depending on the different stages of the production value chain a company is focused on, commitments can range from traceability within own plantation or own mill, or extend much more broadly to ensure traceability to all mills and plantations in the company’s supply chain.

Even the term “deforestation” can have different meanings. Many RSPO members have signed on to the No Deforestation, No Peat, No Exploitation (NDPE) policy, which does not, however, provide an official definition of deforestation. Companies often use two approaches, avoiding the clearance of high carbon stock (HCS) areas and/or high conservation value (HCV) areas. However, the overlap between the two approaches is not clear; deforestation may still occur while being compliant with either of these approaches.

Achieving supply chain traceability and reporting on the progress towards full traceability is nevertheless critical in ensuring that the global supply of palm oil becomes more sustainable. Without knowing where their supply comes from, it is unrealistic to expect companies to be able to produce certified sustainable palm oil (CSPO). It is also important to distinguish that not all CSPO is the same, even under the RSPO scheme. Some buyers only purchase Segregated CSPO, whereby sustainable palm oil from certified sources is kept entirely separate from ordinary palm oil throughout the entire supply chain. However, many buyers opt to purchase Mass Balance CSPO, where sustainable palm oil from certified sources is mixed with ordinary palm oil in the supply chain, and yet retains CSPO status.

Another challenge that must be taken into account is the fact that there is currently a shortage in demand for CSPO. According to the RSPO, although 19% of global palm oil is certified as sustainable, just half that amount is sold as certified sustainable palm oil[1]. The rest is simply mixed and sold as conventional palm oil. BIS engagements to date corroborated this, revealing that due to lack of demand, the price premium CSPO commands over ordinary palm oil has eroded over the last ten years, in some cases to as little as 2% over conventional palm oil.

[1]Source: RSPO – Certified Sustainable Palm Oil supply and sales by supply chain model

Although a growing number of multinational consumer goods companies have publicly committed to sourcing only CSPO, some of the premium is naturally lost during negotiations as palm oil companies seek to secure a stable long-term contract. The low demand for CSPO relative to its production may also be attributed to growing consumption in India, Indonesia, and China, where purchasers are more price sensitive and less committed to sourcing certified sustainable palm oil.

Nonetheless, this has significant implications for traceability and certification efforts to the smallholder level. Without sufficient economic incentives that flow through the entire supply chain down to the smallholders, certification schemes may face sustainability challenges. Specifically, it is possible that all the cost and pressure to comply will increasingly fall only on the larger listed palm oil companies. One engagement with an early member of RSPO revealed that the company ultimately opted to drop out of the scheme following a dispute over compliance matters. Despite this extremely complex backdrop, BIS believes it is important for companies to be incentivized to comply and remain committed to higher standards rather than opt for less stringent regimens.

BIS will continue to engage with palm oil producers, downstream buyers and other relevant stakeholders to promote sustainable palm oil practices. While we recognize that this is a highly complex industry with no quick fixes, our expectations of the palm oil companies in which we invest on behalf of clients remain unchanged. We will continue to focus on three aspects in our engagements: (1) full transparency on traceability and sustainability of existing operations, including subsidiaries, joint-ventures and foreign investments; (2) a commitment to targets involving a time-bound plan to achieve full traceability as well as to achieve full compliance with RSPO standards; and (3) a governance framework in the companies to fully integrate sustainability targets including handling of grievances, and ensuring there is sufficient board oversight on the progress made towards those targets.

Hong Kong: Supporting privatization for an underperforming company

4 The controlling shareholder of a real estate company in Hong Kong proposed to privatize the company. The offer price was higher than the stock had ever traded at in the past decade and, hence, would provide investors a convenient exit given the stock's lackluster performance. However, the offer price represented a substantial discount to the last audited net asset value, which raised questions regarding the fairness of the offer. BIS engaged with the company and the financial advisors to address our concerns around pricing, deal rationale, and timing of the privatization.

The company and its representatives explained that the recommendation of independent directors to vote in favor of the deal was made on the basis that the offer price represented a significant premium compared to the persistently low stock price. Given the offeror's controlling stake in the company, it was deemed unlikely for a third party to take the company private. Further, taking into consideration the offeror's indication that the offer would not be increased, the independent directors viewed the offer as the best option for minority shareholders and recommended a supportive vote.

BIS believes that the offer was below what the company was worth. However, weighing it against the alternative of having our clients' investment locked in an underperforming stock with no foreseeable catalyst for a revaluation, we decided it was in the interest of our clients to support the transaction. The privatization was approved at the court meeting with less than 2.4% of the total voting rights of disinterested shares voting against the proposal.

Hong Kong: Dubious buybacks

5 Pursuant to establishing a share award scheme, a Hong Kong-listed medical device developer proposed to use internal capital to buy back shares from a substantial shareholder to support the implementation of the scheme. While share buyback plans are generally supportable in Asia, we note several points of concern in this instance. Following our analysis of the transaction, BIS decided to vote against management due to the weak alignment with performance and minority shareholders' interest.

Firstly, the company provided little information for the share award plan in relation to the eligible participants, the vesting schedules, or the performance hurdles. It was also unclear why the company needed to do an immediate purchase of all the shares under the plan instead of gradually purchasing from the secondary market over the plan period of ten years and closer to when shares are granted.

Secondly, the company pointed to the lower cost of share acquisition as the key benefit of buying from a substantial shareholder, given the price discount that had been agreed upon. However, taking into account the stock's trading volume over the past three months, we note that it would take a prolonged period of potentially a few months for the substantial shareholder to dispose the stated amount of shares in the secondary market. The disposal price, if sold through the market, could have been much lower than the agreed buyback price considering the impact associated with such a massive disposal by a substantial shareholder. We are of the view that the arrangement was just as beneficial, if not more so, for the substantial shareholder as for the company given the share price had been declining over the past seven months. Buying back from the secondary market on an as-needed basis also offered the benefit of supporting the share price, in addition to avoiding an immediate cash outlay as required by the company's proposal, amounting to more than its cash balance as at the last balance sheet date (June 30, 2018).

Considering the above, we did not see it as positive for investors to support the buyback from the substantial shareholder and thus voted against the proposal.

Hong Kong: A REIT standard-bearer

6 We engaged with the independent chairman of the board at a Hong Kong-listed REIT, in which we are the largest shareholder, to discuss a range of topics including business strategy, board structure, executive remuneration, recent share buybacks, and policies around executives' trading activities. We consider the company a leader in Hong Kong for its robust corporate governance practices, namely a high level of independence in board composition, transparency in governance policies, and board level access to investors.

Nonetheless, during the engagement, we raised concerns over the exemption of executive directors (including the CEO) from retirement by rotation from their director positions, and the disposal of company shares by the CEO during the period that the company executed its share buyback. The chairman expressed willingness to review the exemption and assured us there are internal policies governing executives' trading activities to avoid conflict of interest. To ensure a high level of governance and oversight, the company has employed independent professional service providers to evaluate board performance and remuneration packages. It has also adopted governance controls more stringent than market standards, such as a nine-year hard cap on directors' tenure and a three-year cooling off period for reclassification of directors.

In spite of his relatively short service with the board, the chairman demonstrated a high level of comprehension around the company's strategy and deep insight into the competitive landscape. This reflects favorably on the effectiveness of the board in providing strategic guidance to the management. Our view of the company remains positive following the engagement.

Australia: Engagements post the Royal Commission Report

7 The 2018 Royal Commission, an investigation into the financial services industry established after a series of banking and financial planning scandals, published their eagerly anticipated final report in February 2019. The report consisted of 76 recommendations. Thematically, the Commission's recommendations focused on "conflicts and conduct", "stronger regulatory action, supervision and personal responsibility", "introducing a best interests test for mortgage practices", "banning of grandfathered trail commissions", and "culture and governance". The report also recommended 24 institutions be investigated for potential criminal or civil legal actions.

Whilst not overly prescriptive with respect to recommending regulatory changes, the final report affirmed key expectations in relation to corporate governance in the Australian market. The report also created substantial debate over the lasting impact of the Royal Commission's recommendations for the financial services sector and beyond.

BIS has been engaging with companies in financial services, as well as companies in other sectors, on the implications of the Commission's recommendations for enhanced governance practices across listed companies. Specifically, BIS engagements have concentrated on three key themes – increasing accountability, improving disclosure, and enhancing culture and governance – that featured throughout the report.

For instance, in an engagement this quarter with a financial services firm, we discussed the complexities associated with creating an executive remuneration scheme that was fit for purpose, incorporated proper accountability, and had clear links to financial results and business outcomes. Our engagement centred on the challenges around balancing the importance of executives taking appropriately measured risks while not becoming overly risk averse. We also discussed the importance of financial services firms simplifying their business offerings to focus on key competitive strengths while maintaining an innovation pipeline that offers clients new products that meet their evolving needs.

Separately, a recent engagement with a mining resources company underscored the need for improvements in board accountability. Whilst the company is perceived positively for its overall sustainability efforts, it has nevertheless experienced challenges in relation to operations in Africa. In our engagement, we sought insight into how its board is integrating material sustainability factors into the company's overarching corporate strategy. During our engagement, we questioned the board's composition and sought to understand if the board possessed either the requisite skills or management information to oversee such sustainability risks and opportunities. We intend to continue to engage the company on this front.

In relation to improving company disclosures, we recently engaged with both a mining company and an insurer to better understand their approach to climate risks affecting their businesses. We sought better insight into their climate risk and how it aligns with the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). We will continue to engage with these companies on this issue and monitor their progress.

The Commission's report focus on the importance of corporate culture and employee development echoes some of BIS' perspectives on the issue which we share in our commentary on strategy, purpose, and culture. In a recent engagement with a natural resources company, we discussed its approach to developing its culture. The industry is facing significant workforce and skills shortages due to the decline in students graduating in mining engineering studies. Given these challenges, the company focuses on creating a competitive advantage by prioritizing employee development and retention tied to cultivating a strong culture. Beyond its current employee base, the company is seeking innovative ways to attract future talent by pursuing sponsorship programs at elementary and high schools to encourage students to seek an education in mining engineering.

On behalf of our clients, BIS will continue to engage with companies on issues that have arisen from the Royal Commission and, through these engagements, we will continue to promote enhanced corporate accountability mechanisms, improvements in corporate disclosures, and increased linkages between culture and corporate strategy.

Japan: Quality issues in the automotive sector

8 BlackRock engaged with a Japanese automaker that has faced a number of quality control issues over the past few years. Our engagements with the company, including meetings with senior management and onsite visits, date back several years when these issues first came to light. The various engagements have eased our concerns around product safety. At the same time, we explained our belief that the company's rapid growth may have contributed to its quality control issues. In these engagements, we emphasized the need to upgrade the company's internal management system. Follow-up engagements allowed us to evaluate the company's progress towards implementing its relevant compliance program.

The company has refreshed its board, installed systems to identify and alert issues in real time, increased the number of staff in charge of inspection, and separated the vehicle inspection department from the manufacturing division to ensure independent checks and controls. The company has also taken a number of steps to improve communications between the senior leadership and the manufacturing teams in the factories. While reforms are still in progress, BIS believes that the company has taken our concerns seriously, and is taking appropriate steps to fix the aforementioned governance, corporate strategy, and cultural issues.

Responsible Leadership

Larry Fink's Annual Letter to CEOs

Each year BlackRock's Chairman and CEO Larry Fink sends a letter to the CEOs of leading companies in which our clients are shareholders. In the letter Mr. Fink generally reflects on issues related to corporate governance and long-termism. In these letters he has for several years explained our expectations of companies in relation to long-term thinking:

"We are asking that every CEO lay out for shareholders each year a strategic framework for long-term value creation. Additionally, because boards have a critical role to play in strategic planning, we believe CEOs should explicitly affirm that their boards have reviewed those plans. BlackRock's corporate governance team, in their engagement with companies, will be looking for this framework and board review."

This year's letter expands on the previous year's discussion of purpose, reinforcing the need for companies to have a clear mission in order to maintain and enhance long-term value and profitability.

Over the past year, BlackRock Investment Stewardship has been engaging with companies about how their stated purpose is reflected in their long-term strategy and culture. More information about our approach to engaging on this issue can be found in our publicly available commentary. As mentioned in this year's letter, we are encouraged by the commitment of companies to engaging with us on this issue, and we will continue to report on our conversations as they evolve.

BlackRock Investment Stewardship website updates

We view transparency as a key component of our investment stewardship activities. As part of this commitment, in January BIS revamped its website to refresh content and improve navigation. While much of the core content remains the same, we have evolved it to reflect our latest thinking on market trends and feedback from our clients and the companies with whom we interact.

Key changes include:

Engagement Priorities: We have modified our engagement priorities for 2019, keeping the same five priorities from 2018 but enhancing the wording to fine-tune our focus:

- Expansion of "Climate Risk" priority to "Environmental Risks and Opportunities"
- Expansion of "Corporate Strategy" priority to "Corporate Strategy and Capital Allocation."
- Within the "Governance" priority, we have broadened the discussion on diversity
- Changing "Compensation" to "Compensation that Promotes Long-Termism"

Global Corporate Governance and Engagement Principles: Our Global Principles outline our general philosophy to global governance structures. The updates do not constitute material changes in policy or voting implementation; rather, we clarify our view on certain issues and align language on a number of topics, namely director independence, board diversity and material environmental and social factors across regional voting guidelines.

Engaging the Regulator and Index Providers Regarding Suitability of Index Inclusions in Hong Kong

A Chinese investment company listed in Hong Kong recently came to our attention following media reports of its eye-popping stock price surge of more than 8,500% over a period of five years. This stock performance was inconsistent with the company having generated significant losses due to a series of poor investments.

The company was listed under Chapter 21 of the Listing Rules of the Hong Kong Stock Exchange. At present, twenty-five companies are listed under the Chapter 21 rule (herein referred to as Chapter 21 companies), which engage in investment activities and are akin to closed-end funds. These companies are not "authorized" by the Securities and Futures Commission (SFC) as they are only approved to be marketed and offered to professional investors[2]. Due to the surge of its stock price and therefore market capitalization, the company was added to various mainstream indices and, subsequently, made its way into index funds as well as ETFs that track these indices. As a result, retail investors who would not have been considered qualified investors became exposed to the company through their investments in such ETFs.

The BIS team in Hong Kong raised the issue with the SFC, which suspended the trading of the stock shortly after. According to news reports, the SFC is conducting an investigation into potential misconduct involving price manipulation. We also discussed the issue with colleagues in BlackRock's ETF and Index Investments team who have reached out to our index vendors to examine the matter.

CFO Academy - Bank of America Merrill Lynch – Beijing

BIS participated in a fireside chat on environmental, social and governance (ESG) investing and its development in China at the CFO Academy hosted by Bank of America Merrill Lynch in Beijing. The audience consisted of primarily company CFOs and investor relations officers of Chinese companies who are keen to understand how investors look at ESG issues and how they can be agents of change to advance ESG practices at their companies.

Practical Corporate Governance Conference 2019 – Taipei

BIS spoke on a panel on governance and risk at the Practical Corporate Governance Conference hosted by the Hong Kong Institute of Company Secretaries in Taipei. The role of company secretaries was introduced in Taiwan late last year when regulators made it mandatory for large companies and those in the financial industry to have a designated company secretary. The event audience included new company secretaries as well as directors of companies contemplating the introduction of such a position in their companies.

IR Seminar in Japan – Tokyo

BIS presented on the topic of our proxy voting and stewardship activities in a seminar held by Mizuho Trust and & Banking Co and Japan Investor Relations and Investor Support. The seminar was attended by more than 300 participants from investee companies.

Corporate Governance System Committee held by Ministry of Economy, Trade, and Industry – Tokyo

BIS participated in the standing committee convened by Ministry of Economy, Trade, and Industry in a session focusing on the issues of parent/subsidiary listing. The discussion centred around the role and responsibility of outside directors in promoting effective corporate governance. Members of the committee include institutional investors, issuers and academics.

[2] As defined in the Securities and Futures (Professional Investor) Rules.

Study Group on Implementing the Taskforce on Climate-related Financial Disclosures (TCFD) Recommendations – Tokyo

We participated in the working group meeting convened by Ministry of Economy, Trade and Industry, and discussed collecting case studies which showcase best practices in TCFD disclosure around the globe. Members of the working group include institutional investors and financial companies.

Fair Mergers & Acquisitions (M&A) Study Group held by Ministry of Economy, Trade, and Industry – Tokyo

BIS participated in the regular study group convened by Ministry of Economy, Trade, and Industry, and discussed best practices in ensuring fair M&A in Japan. The study group analyses a variety of issues concerning M&A practices, including management buyouts, appropriate valuation, and the challenges associated with minority shareholder protection. This quarter, the discussion focused on benchmarking the practices of managing conflict of interests in takeover bid situations in key markets. The study group attracted a diverse audience including companies, investors, and academics.

Market Developments and Trends

China – New Science and Technology Innovation Board

China Securities Regulatory Commission (CSRC) and the Shanghai Stock Exchange (SSE) released detailed rules for the new Science and Technology Innovation Board (the new technology board) in March 2019. The new technology board was launched to provide a venue of listing for high growth companies in innovative businesses that do not meet the listing criteria of the main boards. The listing rules of the new tech board differ from those of the SSE and Shenzhen Stock Exchange in many respects. They include listing criteria concerning issues such as pre-listing track record and country of incorporation, initial public offering pricing mechanisms, and post-listing price movement limits, among others. Notably, it will join the Hong Kong Stock Exchange and Singapore Stock Exchange in allowing companies with weighted voting rights structures to list.

Safeguards for minority shareholder interests include one-share-one-vote requirement for significant corporate matters such as amendments to company bylaws as well as election of independent directors, and no further issuance of the class of shares with superior voting rights or alteration to the voting structure after listing.

India – Consultation on Differential Voting Rights

The Securities and Exchange Board of India (SEBI) on March 20, 2019 opened its consultation seeking public input on Differential Voting Rights (DVR), i.e. for one class of shares to have superior voting rights and correspondingly lower voting rights for shares held by minority investors. SEBI states it has become aware of demand for companies to list superior voting right shares and has set up an advisory committee to consider allowing this share class. The public consultation will close on April 20, 2019. BlackRock intends to submit a response stating our firm position that all shares should have equal voting rights.

Japan – Study Group on Implementing the Taskforce on Climate-related Financial Disclosures (TCFD) Recommendations

In August 2018, Japan's Ministry of Economy, Trade and Industry (METI) established a study group on implementing TCFD recommendations to mobilize green finance through proactive corporate disclosures. The study group invited senior members in charge of finance and corporate planning functions of listed companies to an active dialogue, discussing ways to enhance corporate disclosures in accordance with the TCFD recommendations. On December 25, 2018, the study group developed the Guidance for Climate-related Financial Disclosure (TCFD Guidance). At the same time, METI announced its endorsement of the TCFD recommendations.

The Guidance aims to promote early adaption of the TCFD recommendations by providing live examples of corporate disclosure in accordance with these recommendations, with case studies and industry-based viewpoints that companies should consider when presenting their efforts. In the initial phase, METI selected five industrial sectors, namely, automobiles, iron and steel, chemicals, electrical and electronics, and energy. These industries were selected on the basis of having high greenhouse gas emissions. The Guidance presented key points on disclosure which take into account the characteristics of each industry. In February 2019, the study group collected further case studies which include introduction of best practices on TCFD disclosure globally. BlackRock contributed to establishing the TCFD Guidance, as well as the selection of best practices that are in line with the Guidance.

Taiwan – Recent Developments on the 2018-2020 Corporate Governance Roadmap

Since the launch of the 2018-2020 Corporate Governance Roadmap in April 2018, Taiwanese authorities have continued to roll out changes in regulations. The Rules Governing the Appointment and Exercise of Powers by the Board of Directors of Taiwan Stock Exchange (TWSE) listed companies were amended in December 2018 and will come into effect on July 1, 2019. The main changes include:

1) independent directors need to constitute more than half of the remuneration committee;
2) companies need to purchase liability insurance for all directors and supervisors;
3) finance and insurance companies and companies with a paid-in capital of over TWD 10 billion should appoint a company secretary; and
4) from 2020 onwards, self-assessments or peer reviews of the board will be made mandatory

Relevant regulations regarding the qualification requirements of responsible persons of banks and financial holding companies were also amended. Starting from July 1, 2019, financial holding companies and banks with total assets over TWD 1 trillion are required to have a higher number of natural person directors on the board. This is an encouraging development for investors as one of the unique governance features in Taiwan is the practice of allowing "legal entities" to serve as directors on the board. These legal entity directors in turn appoint natural persons as their representatives to discharge their director duties. The designated natural person may be changed anytime without shareholder approval, effectively removing the right of shareholders to elect directors. We believe strengthening the requirement for natural person directors, and ultimately banning legal entity representative directors, will be an enhancement of corporate governance practice in this market.

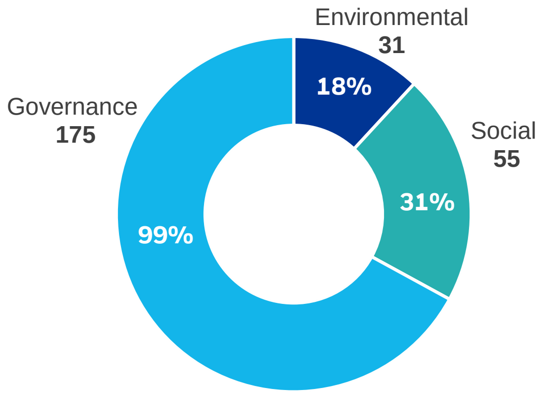
Engagement and Voting Statistics

Asia-Pacific Q1 2019 Engagement Statistics

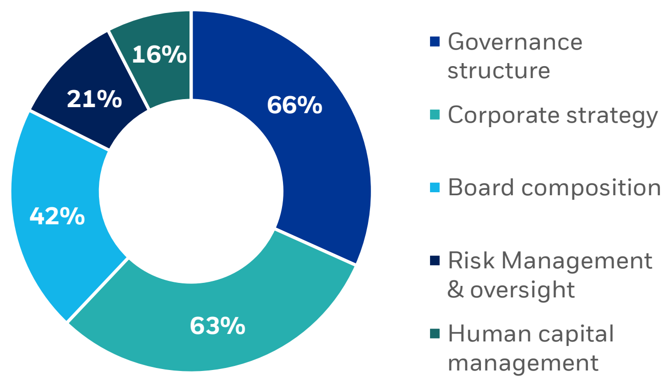
Region	Engagements[3]	Multiple engagements[4]	Meetings voted	Proposals voted
Japan	135	7%	296	2,799
Asia-Pacific ex Japan	42	2%	1,070	6,385
Asia-Pacific total	177	6%	1,366	9,184

[3]The Asia-Pacific engagement statistics are sourced from BlackRock on April 5, 2019 and are a reflection of 1st Quarter 2019.
[4]Multiple engagements represents the number of multiple meetings during the quarter with the same company.

Engagement topics*



Top engagement themes*



*Most engagement conversations cover multiple topics.

Asia-Pacific statistical overview twelve months from April 1, 2018 to March 30, 2019

Engagements	Multiple engagements*	Meetings voted	Proposals voted
645	16%	8,226	68,660

Global statistical overview twelve months from April 1, 2018 to March 30, 2019

Engagements	Multiple engagements*	Meetings voted	Proposals voted
2,091	19%	16,686	157,869

*Multiple engagements represents multiple meetings with the same company over this period.

Engagement and Voting Statistics

Q1 2018 Asia-Pacific Voting Statistics[5]

Country	Number of meetings voted	Number of proposals	% of meetings voted against one or more management recommendations	% of proposals voted against management recommendation
Japan	296	2,799	35%	5%
Asia-Pacific ex Japan	1,070	6,385	28%	8%
Asia-Pacific Total	1,366	9,184	29%	8%

Votes against management by proposal type for the quarter:

Region		Japan	Asia-Pacific ex Japan	Asia-Pacific Total	Global
Management Proposals					
Anti-takeover and related proposals	proposals voted	4	4	8	158
	% voted against management	100%	0%	50%	7%
Capitalization	proposals voted	10	831	841	1,694
	% voted against management	0%	3%	3%	3%
Election of directors and related proposals	proposals voted	2,340	2,137	4,477	8,850
	% voted against management	5%	6%	6%	7%
Non-salary compensation	proposals voted	130	731	861	1,695
	% voted against management	17%	17%	17%	19%
Mergers, acquisitions and reorganizations	proposals voted	104	617	721	1,014
	% voted against management	7%	21%	19%	16%
Routine business	proposals voted	202	1,780	1,982	5,562
	% voted against management	1%	5%	5%	7%
Shareholder Proposals					
Compensation	proposals voted	2	2	4	16
	% voted against management	0%	0%	0%	6%
Corporate Governance	proposals voted	1	59	60	72
	% voted against management	0%	3%	3%	6%
Election of directors and related proposals	proposals voted	3	148	151	218
	% voted against management	0%	1%	1%	1%
Miscellaneous business	proposals voted	3	35	38	97
	% voted against management	33%	6%	8%	5%

[5]The Asia-Pacific voting statistics are sourced from ISS Proxy Exchange on April 5, 2019 and both are a reflection of 1st Quarter 2019.

Engagement and Voting Statistics

Proposal Terminology Explained:

Management Proposals

Anti-takeover Related — 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 — 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.

Routine Business / miscellaneous — resolutions regarding social and environmental matters that may have an impact on company operations, including shareholder proposals relating to procedural matters.

Prepared by BlackRock, Inc.