BlackRock Investment Stewardship

Proxy voting guidelines for Benchmark Policies – Japan securities

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Market-level considerations

These proxy voting guidelines (the Guidelines) are part of the BlackRock Investment Stewardship (BIS) Benchmark Policies and should be read in conjunction with the BIS Global Principles.[1]

The Guidelines summarize BIS' philosophy and approach to engagement and voting, as well as our view of governance best practices and the roles and responsibilities of boards and directors for companies publicly listed in Japan.[2]

These Guidelines are not intended to limit the analysis of individual issues at specific companies or provide a guide to how BIS will engage and/or vote in every instance. They are applied with discretion, taking into consideration the range of issues and facts specific to a company, as well as individual ballot items at shareholder meetings. Generally, BIS supports the vote recommendations of boards and management at companies with sound corporate governance and that deliver strong financial returns over time.

These Guidelines are used to assist BIS in assessing proposals presented at shareholder meetings. When assessing any proposal, BIS takes into account the unique circumstances of the relevant company and the potential impact of such a proposal on the long-term financial performance of the company. We engage with management or members of the board, as appropriate, on contentious and high-profile issues, to help make a more informed voting decision. We also take into consideration market codes of governance and stewardship, as applicable. At a minimum, BIS looks to companies to meet the regulatory requirements of company law, listing rules of local exchanges, and any regional corporate governance codes.

Boards and directors

Oversight role of the board

Companies whose boards are comprised of appropriately qualified and engaged directors, with professional characteristics relevant to a company's business, enhance the board's ability to add long-term financial value and serve as the voice of shareholders in board discussions. In our view, a strong board gives a company a competitive advantage, providing valuable oversight and contributing to the most important management decisions that support long-term financial performance.

For this reason, our investment stewardship efforts focus on the effectiveness of the board of directors. We engage, as necessary, with members of the board's nominating and/or governance committee to assess whether governance practices and board composition are effective given a company's business model, sector, market, and the business environment in which a company is operating.

We consider it good practice when the board establishes and maintains a framework of robust and effective governance mechanisms that supports its oversight of the company's strategy and operations, consistent with the long-term financial interests of investors. This includes having clear descriptions of

[1] The BIS Global Principles, regional voting guidelines, and Engagement Priorities (collectively, the BIS Benchmark Policies) set out the core elements of corporate governance that guide our investment stewardship program. The Benchmark Policies apply to clients' assets invested through index equity strategies, take a financial materiality-based approach, and are focused solely on advancing clients' long-term financial interests.

[2] On February 11, 2025, the U.S. Securities and Exchange Commission (SEC) staff issued updated guidance for shareholders to maintain their eligibility to report their beneficial ownership under Schedule 13G of the Exchange Act. We comply fully with these requirements and do not engage with portfolio companies for the purpose, or with the effect, of changing or influencing control of any company.

the role of the board and the committees of the board and how directors engage with and oversee management, as well as disclosure of material risks that may affect a company's long-term strategy and how management is effectively identifying, managing, and mitigating such risks.

Understanding management's long-term strategy and the milestones against which investors should assess its implementation is central to our approach. If any strategic targets are significantly missed or materially restated, we find it helpful when company disclosures provide a detailed explanation of the changes and an indication of the board's role in reviewing the revised targets. We look to the board to articulate the effectiveness of these mechanisms in overseeing the management of business risks and opportunities and the fulfillment of the company's strategy.

Where a company has not adequately disclosed or demonstrated that its board has fulfilled these corporate governance and risk oversight responsibilities, we may consider not supporting the election of certain directors who, in our assessment, have particular responsibility for the issues.

Issues and criteria that are frequently assessed as part of our director voting evaluations are indicated below.

Regular accountability through director elections

The election of directors to the board is a right of shareholders and an important signal of support for, or concern about, the performance of the board in overseeing and advising management.

To ensure accountability for their decisions on behalf of shareholders, directors should stand for election on a regular basis, ideally annually.[3] Annual director elections allow shareholders to reaffirm their support for, or concerns about, board members' decisions in a timely manner.

Board quality and effectiveness

Regular director elections also give boards the opportunity to adjust their composition in an orderly way to reflect developments in the company's strategy and the market environment. In our view, it is beneficial for new directors to be brought onto the board periodically to refresh the group's thinking while supporting both continuity and appropriate succession planning. We consider the average overall tenure of the board, and seek a balance between the knowledge and experience of longer-serving directors and the fresh perspectives of directors who joined more recently. We appreciate it when companies regularly review and assess how directors nominated for election contribute to the effectiveness of the board. In our view, the company's assessment should consider a number of factors, including each director's independence and time commitments, as well as the breadth and relevance of director experiences and skillsets, and how these collectively contribute to the board's effectiveness in advising and overseeing management in delivering long-term financial returns.

Directors are in the best position to assess the composition and optimal size of the board, but we have concerns if a board seems too small to have an appropriate balance of directors or too large to be effective.

We look to the board to establish a robust process to evaluate the performance of the board as a whole and the contributions of each director. In our view, annual performance reviews of directors and the board may contribute to a more efficiently functioning board.

[3] In most markets, directors stand for re-election on an annual or triennial basis, as determined by corporate law, market regulation or voluntary best practice.

Corporate governance items

BIS recognizes that corporate governance structures may vary depending on factors specific to each company. As such, we welcome companies' own decisions concerning their corporate governance structure, as stipulated by the Companies Act.[4] We look to companies to achieve effective corporate governance by strengthening board oversight, as well as introducing voluntary mechanisms such as the establishment of various committees. More specifically, we consider a company's efforts to enhance corporate governance, including but not limited to its structure and effectiveness of nomination and other relevant committees (e.g., the appointment of outside directors as the chairs of committees) and appropriate oversight by outside directors (e.g., the appointment of outside directors as chair of the board, appointment of the lead independent director).

Board composition

Common items

In principle, we support the installation of the Audit Committee structure or a company with a "Three Committee" (nomination, remuneration, and audit) structure. BIS may vote against proposals to move back to a Statutory Auditor structure from the Audit Committee or the Three Committee structure, for instance, if the change impacts board oversight.

Regardless of governance structures, the appointment of independent outside directors serves to protect the interests of all shareholders. BIS may vote against directors who are responsible for board composition if a company appoints fewer than two independent directors and if there is no reasonable explanation.

BIS may vote against an increase in the number of directors if there is no reasonable explanation.

We are interested in a variety of experiences, perspectives, and skillsets in the boardroom. We see it as a means of promoting diversity of thought to avoid "group think" in the board's exercise of its responsibilities to advise and oversee management.

In assessing board composition, we take a case-by-case approach based on a company's board size, business model, strategy, location, and market capitalization. We look for companies to explain how their approach to board composition supports the company's governance practices.

In light of the listing rules, for companies with large market capitalization, we may vote against directors who are responsible for board composition, if the number of women directors or statutory auditors appointed is inconsistent with market practices or relevant listing rules, and the board is unable to provide a reasonable explanation.[5,6] We may also consider other characteristics such as global experience and age when assessing board composition.

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[4] See: Companies Act of Japan, Part II, Chapter IV.

[5] The Japan government set a goal in 2023 for 30% gender diversity at the board and executive-level by 2030. Consistent with that mandate and market practice, BIS looks to constituents of TOPIX 100 Index to have more than one female director or statutory auditor and the rest of the companies listed on the Prime Market to have at least one female director or statutory auditor. Please refer to "Revisions to the Securities Listing Regulations and Other Rules Concerning the Development of Listing Rules in Relation to the "Intensive Policy for Gender Equality and the Empowerment of Women 2023" (Basic Policies Related to Women 2023) and the Desired Investment Unit Level" (Tokyo Stock Exchange, October 4, 2023).

[6] Please refer to the "Material sustainability-related risks and opportunities" section.

Companies with Statutory Auditor Boards[7]

BIS may vote against the appointment of non-independent outside directors if, in our assessment, shareholders' interests may be materially impaired. If less than one third of the board members are independent, we may vote against the appointment of directors who are responsible for board composition including in the following circumstances:

- If the company has installed or proposes to install anti-takeover devices.
- If large shareholders exert control over the company.

Companies with an Audit Committee

BIS may vote against the appointment of directors responsible for board composition if less than one third of Audit Committee members are independent. BIS may also vote against the appointment of non-independent outside directors, including Audit Committee members.

Companies adopting a Three Committee structure

For companies adopting the Three Committee structure, BIS looks for half or more of the board members to be independent outside directors. BIS may vote against the reappointment of non-independent outside directors if less than half of the board members are independent. BIS may also vote against the appointment of non-independent outside directors, including Audit Committee members.

Appointment of directors

In cases of serious social misconduct, such as the violation of a law, criminal prosecution, fraudulent accounting, or disturbances to public order and proper customs, and where the event has materially created significant reputational damage and had an adverse effect on the company, we may vote against the reappointment of directors. However, this may not apply in cases in which the company has taken action internally and announced such decisions publicly.

For companies whose capital efficiency remains low for several consecutive years, BIS may vote against the reappointment of responsible directors, if we determine long-term shareholder value has been impaired.[8] BIS will evaluate the company's past and future business plans, current capital policy (including cross-shareholdings), business track record, and sector-specific factors upon making such an assessment.[9]

BIS may also vote against the reappointment of responsible directors if the capital efficiency of a company is low due to the company holding excessive cash and securities, including cross-shareholdings, on its balance sheet, without a credible plan to utilize such assets.[10]

In addition to the cases above, if the decisions of the incumbent directors are considered to have clearly impaired the economic interests of shareholders, including cases such as poor performance over an extensive period of time, massive increases in capital without shareholder approval, or failure to implement a shareholder proposal with a considerable level of support, BIS may vote against the

[7] This also applies to companies listed on the Prime Market of the Tokyo Stock Exchange.
[8] Provided that return on equity (ROE) has been below 5% for three consecutive years.
[9] For the banking sector, we will also assess sector specific profitability and operational efficiency indicators.
[10] Provided that the sum of cash and equivalents, short-term investments, and long-term investments is over 50% of the company's total assets, and that the return on equity is below 5%. These Guidelines do not apply to banks and financial sectors as short- and long-term investments can be considered as ordinary business activities for companies in these sectors.

reappointment of such directors. In such cases BIS will assess whether the reappointed directors can be reasonably expected to protect and enhance the long-term interests of shareholders.

In cases where shareholder approval over allocation of income is waived by the company's articles of incorporation, BIS may vote against the reappointment of directors if the payout amount determined by the board does not appear in the interests of long-term shareholders.

In cases where the board has adopted a takeover defence measure without shareholder approval, we may vote against the appointment of all or some of the incumbent directors. We may vote against relevant directors at companies that do not disclose material sustainability-related risks and opportunities where relevant for their business.

Appointment of outside directors

BIS may vote against outside directors if their attendance at board meetings or Statutory Committee meetings is below 75% over the last year as a director, unless a robust explanation for the low participation has been provided. BIS may consider voting against outside directors if their long-term tenure as an outside director raises concerns over their independence and a reasonable explanation as to why their reappointment is in the long-term interests of shareholders has not been provided.[11]

In the Japanese market, BIS defines independent outside directors as those who have no connections or relationships with the company or its executives/officers and hence are not conflicted in representing the interests of general shareholders.

Generally, directors that BIS may not consider independent are those who have worked for some period of time as executives/officers or employees of the parent company or subsidiaries; executives/officers and employees of the company's major business partners (including brokerage firms); current and former executives/officers of companies with interlocking directorships; representatives of large corporate shareholders; executives/officers from the accounting firm currently doing the audit of the company and other individuals who have provided professional services to the company (including attorneys, accountants, and consultants). However, BIS may evaluate former executives/officers and employees of the company's major business partners, other large corporate shareholders, and executives from the accounting firms carrying out the audit of the company, as potential independent outside directors upon reviewing their work experience as well as that of the entities they have represented.[12]

In cases where a large shareholder exerts control over the company, but we conclude that a particular candidate would contribute to long-term financial value creation, we may support this candidate.

However, we establish a five-year cooling-off period after the candidate's retirement from the affiliated party and would generally consider the candidate as independent if the candidate is being appointed after such period.

BIS may vote against the appointment of outside directors who serve on more than four public boards unless a reasonable explanation has been provided.

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[11] Applied to directors with over 12 years of tenure.

[12] We may not consider the proposed candidate as independent if the candidate seems to represent stakeholders such as large shareholders (holds 10% or above outstanding shares), current and past material business partners, companies with interlocking directorship, auditors who belong(ed) to audit firms which provide audit services to the company, lead underwriters of securities issuance, individuals who receive annual fees exceeding annual 10 million JPY in exchange for professional services, such as legal accounting, consulting services, individuals who belong(ed) to organizations which receive donations exceeding 10 million JPY annually, directors with over 12 years of tenure, and family members of employees of the company.

Auditors and audit-related issues

Appointment of statutory auditors

- If serious social misconduct such as a violation of law, criminal prosecution, disturbances to public order and proper customs have occurred, and if it has materially created significant reputational damage and had adverse effects on the company, we would vote against the reappointment of such auditors that are deemed to be responsible. However, this shall not apply if the auditors had a major role in uncovering the misconduct.

- Additionally, in such cases of serious social misconduct, we would also consider each new appointee and vote against those who are deemed unsuitable as statutory auditors.

- We may vote against a decrease in the number of statutory auditors if no clear reasons are provided.

Appointment of outside statutory auditors

- We would vote against the appointment of candidates who are not deemed independent.

- We would vote against outside statutory auditors if their attendance at board meetings or meetings of the statutory auditors is below 75% over the last year as a director, unless a convincing explanation for the low participation has been provided.

- We may vote against outside statutory auditors if their long-term tenure raises doubts over their independence and if a convincing explanation as to why their reappointment is in the interest of shareholders has not been provided.

- Independent outside statutory auditors are those that have no connections or relationships with the company or its executives/officers and are hence capable of representing the interests of general shareholders. Those with interests that might compromise their function of monitoring the management of the company would not qualify. We would generally deem as not independent those who have worked as executives/officers and employees of the parent company or subsidiaries; executives/officers and employees of the company's major business partners (including brokerage firms), current and ex-executives/officers of the company with cross directorships, representatives of other large corporate shareholders; individuals from accounting firms that are taking on the audit of the company, as well as individuals who have provided professional services to the company (including attorneys, accountants, and consultants). We would evaluate the eligibility of independent outside directors, former executives/officers and employees of the company's major business partners, other large corporate shareholders, and individuals from accounting firms that have carried out the audit of the company, in light of their work experience as well as that of the entities they have represented. However, we establish a 5-year cooling-off period after the candidate's retirement from the affiliated party and would generally consider the candidate as independent if the candidate is being appointed after such period.

- We would vote against the appointment of outside statutory auditors who serve on more than four public boards unless a reasonable explanation has been provided.

Appointment of an accounting auditor

We would vote against the appointment of an accounting auditor if there is concern about the auditor's independence.

If the appointment of a new auditor was caused by the resignation of its predecessor who had disagreements with the company regarding its audit, we would carefully assess whether the objectivity of the audit can be secured under the new auditor.

Capital structure, mergers, acquisitions, asset sales, and other special situations

The capital structure of a company is critical to shareholders as it impacts the value of their investment and the priority of their interest in the company relative to that of other equity or debt investors.

Dividend payout

BIS may support dividend payout proposals if it is deemed appropriate after considering relevant factors such as the company's financial performance, the current balance sheet, the company's growth prospects, and the size of share repurchases, as well as the dividend payout levels of relevant peer companies.

We may vote against dividend payout proposals if the company holds excessive cash and securities, including cross-shareholdings, on its balance sheet, without a credible plan or financial strategy to utilize such assets, including total shareholder return or investment plan.[13] If the dividend payout is higher than 100% of net profit, we will evaluate the proposal by taking into account of the company's financial conditions.

We may vote against a proposed increase in dividend payout, or a proposed retention at the previous level, if the company incurred losses (excluding one-time special losses) and concerns arise regarding the long-term financial strength that would result from excessive outflows of funds from the company.

Repurchase of shares

BIS may support a proposal for a share repurchase plan if the proposed amount is not excessive. However, we may vote against a share repurchase proposal if such a transaction is deemed inappropriate. For instance, we may vote against if the company's cash flows are deemed insufficient, and if stock repurchases may negatively affect the long-term interests of existing shareholders because of an expected deterioration in the trading liquidity given the size of the planned repurchase relative to the size of the share float, if repurchases are deemed to cause a creeping takeover by large shareholders, or if the leverage ratio is exceptionally high. BIS will also oppose share repurchases conducted on favorable terms for a specific shareholder.

In addition, if the company accumulates retained earnings without an appropriate business plan, we may vote for a shareholder proposal urging the company for more active stock repurchases.

Reduction of capital reserve and earned reserve

In principle, we may support these proposals if there is a specific purpose provided.

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[13] Provided that the sum of cash and equivalents, short-term investments, and long-term investments is over 50% of the total assets.

Reduction of capital

We may support a reduction of capital proposal if it is made in relation to a corporate resurrection plan, or if there is an imminent risk of bankruptcy.

Allotment of new shares or treasury shares to a third party

Provided the allotment is not made as part of an anti-takeover measure but part of a restructuring of the business, we would determine our vote on a case-by-case basis by taking account factors such as whether the issue price or exercise price is not set at a level excessively advantageous to the allotted party, whether the allotment will cause a significant dilution of existing shareholders, and whether the allotment is not made to inappropriate parties.

If the allotment is made with intent of forming a cross-shareholding relationship, we would vote on a case-by-case basis after assessing the likelihood of such relations impacting shareholder value.

We may vote against the allotment of new shares or treasury shares to a third-party organization, such as a general incorporated foundation established by the company, unless a reasonable explanation is provided. In the case of such share allotment, we look for the company to explain how minority shareholders' interests are protected and promoted. We look to companies to mitigate the impact of potential dilution, treat appropriately the voting rights associated with the allotted shares, and demonstrate that the third-party organization's activities will contribute to shareholder value.

Approval of mergers, asset sales and purchases, and corporate splits and transfers

If the transaction contributes to the strengthening of the company's competitive position or furthers the company's focus on its core business, we may support the proposal provided the decision process is deemed to be fair to all shareholders. However, we may not support the proposal if:

- There are concerns of conflicts of interests on the part of lead banks providing finance that will undermine maximization of shareholder interest.
- The transaction is apparently against the interests of existing shareholders, for instance, appears to be the result of pressure from the parent company, main banks and/or regulatory bodies pushing for a rescue operation of the target company.
- Terms such as the merger ratio, sale/purchase price and share exchange ratio are not determined according to a fair value calculation by a third-party advisor. However, this condition may not apply if the transaction does not affect the economic interests and the legal rights of shareholders if for instance it involves a merger of a 100% subsidiary.

Agenda related to takeover defenses

In principle, we do not support takeover defence measures since, in our view, they work against transactions for company control which are supportive of long-term financial value creation of businesses and generally positive for the economy.

We may vote against, in principle, any measures that would undermine shareholder rights. Thus, we may vote against a different class of shares to be granted to a subset of shareholders with special voting rights, e.g. veto rights at shareholder meetings, or a class of shares that are equipped with multiple voting rights.

Companies often suggest they need takeover defence measures because the regulation regarding public takeover bids gives insufficient protection. Hence, we will evaluate defence measures considering the points below.

We may not support any defence measures whose trigger conditions leave significant room for interpretation and if there are concerns over lack of independence of the board and/or over the composition of the relevant special committee that would raise concern regarding arbitrary implementation.

We may not support the introduction of defence measures unless the board's function of monitoring the management is enhanced by the election of multiple outside directors who are deemed independent and the term of directors for re-election is shortened to one year.

If the board establishes a special committee to evaluate the advisability of triggering defence measures, it is desirable that the committee be comprised of independent outside directors and/or independent outside statutory auditors.

Adoption of a takeover defence measure without any shareholder approval will be evaluated negatively.

The situation surrounding the control market changes over time. We look for takeover defence measures to be equipped with a sunset provision. Additionally, within three years, they should be subject to a review regarding the desirability of their retention.

We would take into account other defence measures (such as setting the upper limit that would eliminate room for additional director appointments) that the company has taken as well as the company's ownership structure (e.g. the existence of large shareholders and deemed stable shareholders). We may vote against if the measures seem excessive.

We would evaluate on a case-by-case basis, any proposal that is undertaken for the purposes of a takeover defence, provided they meet the above-mentioned conditions of the Guidelines. We may not support renewal or introduction of such defence measures for a company whose market value has deteriorated compared to its peers, for instance, due to serious social misconduct or a prolonged state of poor financial performance, unless the company provides an acceptable explanation why such measures would not result in further detrimental impact on shareholder value.

In particular, we would assess takeover defence measures targeted to a specific bidder, on a case-by-case basis. In such situations, we will take into account the information disclosed by both the company and the bidder, in order to determine the impact on long-term shareholder value.

Changes to the articles of incorporation

These proposals vary from routine changes such as reflection of regulatory change, to significant changes that substantially alter the governance of the company. BIS reviews such proposals on a case-by-case basis, in accordance with our Global Principles and our assessment of the impact of the changes on the rights of shareholders. We find it helpful when all listed companies disclose a comparison table to detail proposed amendments and relevant rationales for their articles of association and bylaws. If disclosure is inadequate or significant concerns are identified, BIS may consider not supporting these proposals.

Number of directors

In principle, we may support a reasonable increase in the upper limit on the number of directors that is proposed in relation to the company's business expansion or planned appointment of new outside directors. Conversely, we may generally approve a reduction in the upper limit that is proposed in relation to the downsizing of the board resulting from a review of its role with relation to the management of the company.

Number of statutory auditors

We may vote against in principle a reduction in the upper limit on the number of statutory auditors if the rationale is not clearly explained and the reduction is not deemed to be in the interests of shareholders.

Terms of appointment of a director

We may vote against in principle prolonging the number of years a director is appointed for.

Removal of directors at a shareholder meeting

We may vote against in principle a proposal raising the voting requirement for the removal of directors to higher than a simple majority.

Adoption of the classified board

We may vote against the adoption of the classified structure if we determine that such adoption can erode shareholder value.

Indemnification of directors and statutory auditors

We approve in principle the indemnification of directors and statutory auditors if there are no issues relating to shareholder value.

Indemnification of accounting auditors

We may vote against in principle the indemnification of the auditor unless the company explains clearly why this is in the interest of shareholders.

Lowering of the quorum requirement for special resolutions

We may vote against such a proposal if major shareholders such as the owner's family, the parent company, the business group companies, the main banks and major lender institutions, or other relevant parties jointly already hold one third of the voting rights.

Even where large shareholders have less than one third ownership, we may vote against such a proposal if they have substantive control over the company's management e.g. in appointing directors.

Authorize the board of a company to determine dividend payout

We may vote against the article revision to exclude from the agenda of a shareholder meeting any resolutions relating to the dividend payout. However, if we conclude that there are no issues with the company regarding its financial policies including the dividend policy, effectiveness of board and other corporate governance practices, and that shareholders reserve the rights to propose dividend payout at shareholder meetings, we may consider supporting the proposal.

In addition, we may vote against revisions of articles that authorize the board to determine dividend payouts without shareholder approval if the company fails to make a convincing argument why this would benefit shareholders.

Share repurchase by the board of directors' decision

We may vote against any article revision enabling the board to decide share repurchases without shareholder approval if the stock repurchase itself is deemed inappropriate. For instance, we may vote against this if the company's cash flows are deemed insufficient; or if share repurchases are deemed to negatively affect the long-term interests of existing shareholders because of an expected fall in trading liquidity given the size of the planned repurchase relative to the size of the share float; if repurchases are deemed to cause a creeping takeover by large shareholders; or if the equity ratio is exceptionally low.

Increase in authorized shares

The basic condition for our support for such a proposal is that the number of issued shares already exceeds two thirds of the current authorization and the proposed increase in the authorization is up to 100%. We may vote in favor if this condition is met and if the company provides adequate explanation as to why such an increase in the authorized shares promotes shareholders' long-term interests, and if there are no concerns on erosion of shareholder value from such a proposal.

We would evaluate on a case-by-case basis if the company has a history of third-party allotments that diluted the interests of existing shareholders or if concerns exist regarding the intent of the proposed increase being in conflict with shareholders' long-term financial interests.

If a company is in financial distress and proposes an increase in share authorization as part of a plan for a third-party allotment of shares, we would evaluate the proposal by comparing the size of the potential dilution of shareholder value by the allotment and the likely consequences if such allotment is not granted.

Creation and issuance of class shares

We would evaluate proposals to create and issue a separate class of shares, including preferred stock, by taking into account the objectives, the rights of holders, tenure, and the convertibility to common stock. We would also take into account the qualifications of purchasers, effects on the rights of existing shareholders, and any past history of abusive issuance.

Regarding the creation and issuance of preferred stock convertible to common shares, the term of conversion should necessarily be explicitly stated at the time of issuance.

Voting requirements for proposals regarding organizational restructurings

Unless the company provides a clear explanation why doing so benefits shareholders, we may vote against, in principle, any article revision to make more difficult the requirement to have a special resolution at a shareholder meeting. For instance, if the purpose is to make shareholder approval of corporate restructurings such as mergers more challenging.

Objectives of business

We may approve these proposals unless the proposed expansion of business objectives results in a substantial deviation of the company's area of specialization.

Change of fiscal year

We may vote against a proposal to change the fiscal year to close in March if no proper reason is given.

Virtual meetings

Shareholders should have the opportunity to participate in the annual and special meetings of the companies in which they are invested. When evaluating virtual annual general meetings (AGMs), we take into consideration several factors which include but are not limited to the rationale for introducing virtual AGMs and how the company enables meaningful shareholder participation and interaction with the board and management. We may support proposals which enable the company to hold its shareholder meetings without specifying a physical location (virtual-only shareholder meetings), unless there are significant corporate governance concerns.

Executive compensation and benefits

Executive compensation is an important tool used by companies to support long-term financial value creation. A well-structured compensation policy rewards the successful delivery of strategic, operational, and/or financial goals; encourages an appropriate risk appetite; and aligns the interests of shareholders and executives through equity ownership.[14]

We look for the compensation of an executive director to be linked to their business performance. We may support a proposal for a large increase in compensation of directors only if clear reasons or evidence of the linkage to business performance is provided. Similarly, we may support a proposal for a large increase in compensation of statutory auditors, if evidence of the linkage to business performance is provided.

We may vote against a proposal to increase the compensation for directors and statutory auditors if such a proposal is made by a company whose capital efficiency remains low for several consecutive years.

We may vote against a proposal for an increase in compensations of directors and statutory auditors if the level of their compensation is already deemed excessive.

Executive bonuses

We may vote against the payment of executive bonuses if the dividends to shareholders are not paid out due to sluggish corporate performance, or if there is an occurrence of serious misconduct that is significantly detrimental to shareholder value.

Retirement benefits

We may vote against grants of retirement benefits to all retiring outside directors and retiring statutory auditors. However, in applying this criterion, factors specific to the industry or business sector may be taken into account, where appropriate. We may not support grants of retirement benefits to grantees if they have held their positions for less than two years. We may not support grants of retirement benefits if the total amount or the individual amount of the benefit for each grantee is not disclosed.

If serious social misconduct such as a violation of law, criminal prosecution, disturbances to public order and proper customs has occurred, and if the grantees are deemed responsible, we may vote against grants of retirement benefits.

For companies whose capital returns remain low, we may vote against grants of retirement benefits to all retiring directors. In applying this criterion, factors specific to the industry or business sector may also be taken into account.

[14] The terms “compensation,” “remuneration,” and “pay” are used interchangeably to describe the same concept in different markets.

Equity-based compensation

In principle, we may support these proposals if the following conditions are satisfied:

- The potential dilution limit taking account of all grants outstanding is 5% or less generally, and 10% or less for high growth companies for instance in the technology sector. We may not support these proposals if the company fails to provide information necessary to evaluate the dilution impact of the proposed stock option plans.
- The exercise price should be reasonable relative to the market price.

We may vote against proposals concerning the repricing of the exercise price, or if the compensation plan's features are not aligned with long-term shareholder value creation. We may also vote against the proposal if the proposed stock option grants are deemed to be an anti-takeover measure.

We may approve the proposal if granted to executives/officers and employees of the company or its subsidiaries. However, we may vote against the proposal if granted to statutory auditors of the company and similarly may vote against if granted to executives/officers or employees of business partners. We may similarly vote against if it is granted to outside service providers such as legal counsels, accounting auditors or consultants.

Governance and disclosure related to director and executive compensation

We look to companies to establish sound governance structure and provide sufficient disclosure regarding director and executive compensation. For companies where there is potential misalignment between incentives for directors and executives and interests of minority shareholders, we may consider voting against re-election of director(s) in charge of compensation should there be lack of independent monitoring and/or insufficient disclosure.[15]

[15] Including, but not limited to, companies that pay significantly higher compensation to their directors and executives relative to peers, or that show a low correlation between compensation growth and shareholder returns.

Material sustainability-related risks and opportunities

Appropriate oversight of material risks and opportunities, including material sustainability-related risks and opportunities, is an important component of having an effective governance framework that supports durable, long-term financial value creation.[16]

We look to companies to provide robust disclosure that allows investors to effectively evaluate companies' strategy and business practices related to material sustainability-related risks and opportunities. We find it helpful when companies' disclosures demonstrate that they have a resilient business model that integrates material sustainability-related risks and opportunities into their strategy, risk management, and metrics and targets, including industry-specific metrics.

Standardized disclosure of sustainability-related data supports investors in making informed decisions. The International Sustainability Standards Board (ISSB) standards, IFRS S1 and S2, represent one such approach to standardization that we find useful in our analysis.[17] However, we do not mandate any specific disclosure framework companies should use, and recognize that companies may report using different standards, some of which may be required by regulation. In such cases, we ask that companies highlight the metrics that are industry- or company-specific.

We also recognize that companies may be phasing in reporting over several years. We do not prescribe timelines regarding when companies should make sustainability-related disclosures but appreciate it when companies produce them sufficiently in advance of their shareholder meeting, to the best of their abilities, to provide investors with time to assess the data and make informed voting decisions.

Industry initiatives on managing specific operational risks may also provide useful guidance to companies on best practices and disclosures. While not a voting item, we find it helpful to our understanding of investment risk when companies disclose any relevant global sustainability-related standards adopted, the industry initiatives in which they participate, any peer group benchmarking undertaken, and any assurance processes to help investors understand their approach to sustainable and responsible business practices.

[16] By material sustainability-related risks and opportunities, we mean the drivers of risk and financial value creation in a company's business model that have an environmental or social dependency or impact. Examples of environmental issues include, but are not limited to, water use, land use, waste management, and climate risk. Examples of social issues include, but are not limited to, human capital management, impacts on the communities in which a company operates, customer loyalty, and relationships with regulators.

[17] The ISSB is an independent standard-setting body within the International Financial Reporting Standards (IFRS) Foundation. The standards build on the Task Force on Climate-related Financial Disclosures (TCFD) framework and the standards and metrics developed by the Sustainability Accounting Standards Board (SASB), which have both converged under the ISSB. Please refer to the IFRS website to learn more about the framework and standards S1 "General Requirements for Disclosure of Sustainability-related Financial Information" and S2 "Climate-related Disclosures." Websites accessed in December 2025.

Climate and nature-related risk

Many companies are assessing how to navigate the low-carbon transition while delivering long-term financial value to investors. For companies facing material climate-related risks, we find it helpful when they publicly disclose, consistent with their business model and sector, how they intend to deliver long-term financial performance through the low-carbon transition, including where available, their transition plan.[18, 19] From company disclosures and engagement, we seek to understand the strategies companies have in place to manage material risks to, and opportunities for, their long-term business model associated with a range of climate-related scenarios.

Recognizing the value of these disclosures, certain markets such as the European Union mandate large companies to disclose such climate-related financial information, while in other jurisdictions these disclosures are viewed as best practice in the market.

The ISSB standards provide one such framework that can assist investors in assessing company-specific climate-related risks and opportunities, and informing investment decisions. Such disclosures also provide investors with insights into how companies are managing the risks associated with the transition to a low-carbon economy by managing their own carbon emissions or emissions intensities to the extent financially practicable.

The ISSB standards, for example, contemplates disclosures on how companies are setting short-, medium- and long-term targets, ideally science-based where these are available for their sector, for scope 1 and 2 greenhouse gas emissions (GHG) reductions and to demonstrate how their targets are consistent with the long-term financial interests of their investors.

While we recognize that regulators in some markets are moving to mandate certain disclosures, at this stage, we view scope 3 emissions differently from scopes 1 and 2, given methodological complexity, regulatory uncertainty, concerns about double-counting, and lack of direct control by companies. We welcome disclosures and commitments that companies choose to make regarding material scope 3 emissions and recognize that these are provided on a good-faith basis as methodology develops.

In addition to climate-related risks and opportunities, for companies whose strategies, operations, or supply chains are materially reliant on natural capital, nature-related risks and opportunities may affect their ability to generate long-term financial returns.[20] For these companies, we rely on disclosures to understand how their strategies consider nature-related impacts and dependencies and to assess how the board oversees these risks.[21]

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[18] We have observed that more companies are developing such plans, and public policymakers in certain markets are signaling their intentions to require them or already have requirements in place, such as Australia, Brazil, and the European Union (please see the International Transition Plan Network for information). We view transition plans as a method for a company to both internally assess and externally communicate its long-term strategy, ambition, objectives, and actions to create financial value through the global transition towards a low-carbon economy. Across the landscape there remains divergence on the objectives of such plans and the details they should contain. While transition plans can be helpful disclosure, BIS does not make the preparation and production of transition plans a voting issue. BIS may engage companies that have chosen to publish a transition plan to understand their planned actions and resource implications. Website accessed in December 2025.

[19] For more information, please see our commentary "Climate-related risks and a low-carbon transition," December 2025.

[20] For more information, please see our commentary "Our approach to engagement on natural capital," December 2025.

[21] Given the growing awareness of the materiality of these issues for certain businesses, enhanced reporting on a company's natural capital dependencies and impacts would aid investors' understanding. The recommendations of the Taskforce on Nature-related Financial Disclosures (TNFD) may prove useful to some companies. We recognize that some companies may report using different standards, which may be required by regulation, or one of a number of other private sector standards. TNFD-aligned reporting is not a voting issue. Website accessed in December 2025.

We look to boards to oversee management's approach to addressing material climate and nature-related risk in a company's business model and may convey concerns about board oversight in our voting on director elections or supporting a business relevant shareholder proposal when, in our assessment, the board is not acting in shareholders' long-term financial interests.[22]

Companies' impact on their workforce, supply chains, and communities

Companies determine their key stakeholders based on what is material to their business and long-term financial performance. For many companies, key stakeholders include employees, business supply chains, clients and consumers, regulators, and the communities in which they operate.

In our experience, companies that invest in the relationships that are critical to their strategic objectives are more likely to deliver durable, long-term financial performance. By contrast, we have found that poor relationships may create adverse impacts that could expose companies to legal, regulatory, operational, and reputational risks. This is particularly relevant to a company's workforce, which is central to long-term financial value creation.[23]

As a long-term shareholder on behalf of our clients, we find it helpful when companies disclose how they have identified their key stakeholders and considered their interests in business decision-making. In addition to understanding broader stakeholder relationships, BIS finds it helpful when companies discuss how they consider the needs of their workforce today, and the skills required for their future business strategy. We are also interested in understanding how the board monitors and engages on these matters, given it is well positioned to ensure that the approach taken by management is informed by and aligns with the company's strategy. BIS does not direct a company's policies or practices, which are the responsibility of management and the board.

In addition, we find it helpful when companies disclose their approach to addressing material adverse impacts that could arise from their business practices and affect critical relationships with their stakeholders. We encourage companies to implement, to the extent appropriate, monitoring processes (often referred to as due diligence) to identify and mitigate potential adverse impacts and grievance mechanisms to remediate any actual adverse material impacts.

We look to boards to oversee management's approach to addressing material risks related to key stakeholders and may convey concerns about board oversight in our voting on director elections or supporting a business relevant shareholder proposal when, in our assessment, the board is not acting in shareholders' long-term financial interests.

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[22] Advisory votes are not expressly provided for under the Companies Act of Japan. As a result, climate- or nature-related shareholder proposals in Japan are generally structured as proposed amendments to the Articles of Incorporation. For further detail on our global approach to evaluating shareholder proposals, please refer to the section titled "Shareholder Proposals" in this document.

[23] For more information, please see our commentary "Our approach to engagement on human capital management," December 2025.

Shareholder proposals

In most markets, shareholders can submit proposals to be voted on at a company's shareholder meeting, as long as certain requirements are met. Shareholder proposals span a wide range of topics, including governance reforms, capital management, and changes in the management or disclosure of sustainability-related risks. These proposals have a varying degree of relevance for companies across sectors, locations, and business models.

BIS takes a case-by-case approach to voting on shareholder proposals and maintains a singular focus on the proposal's implications for long-term financial value creation for shareholders. Our analysis considers whether a shareholder proposal addresses a material risk that may impact a company's long-term financial performance. BIS may support shareholder proposals that request disclosures that help us, as long-term investors on behalf of our clients, better understand the material risks and opportunities companies face and how they are managing them, especially where this information is additive given the company's existing disclosures. We look for consistency between the specific request formally made in the proposal, the supporting documentation, and the proponents' other communications on the issues. We also assess the company's practices and disclosures and the costs and benefits to the company of meeting the request made in the proposal. We take into consideration a company's governance practices and disclosures against those of their peers.

BIS does not support shareholder proposals that we view as inconsistent with long-term financial value or that seek to micromanage companies. We take into consideration the legal effect of the proposal, as shareholder proposals may be advisory or legally binding depending on the jurisdiction, while others may make requests that would be deemed illegal in a given jurisdiction.[24]

We may support a proposal for different reasons than those put forth by the proponent, when we believe that overall it may advance our clients' long-term financial interests.

BlackRock is subject to certain rules, regulations, agency guidance, and contractual agreements that place restrictions and limitations on how BlackRock can interact with the companies in which we invest on behalf of our clients. BlackRock does not nominate directors for board elections or submit shareholder proposals to companies. Non-compliance with these requirements could adversely affect BlackRock's ability to serve its clients' interests.

[24] Advisory votes are not expressly provided for under the Companies Act of Japan. As a result, shareholder proposals in Japan are often structured as proposed amendments to the Articles of Incorporation.

Want to know more?

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