



BLACKROCK POLICY UPDATES 2022

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BlackRock Policy Updates for 2022

As it does each year, the world's largest investment manager has recently issued its Investment Stewardship Principles for 2022. The annual Policy Update provides BlackRock's approach and key focus points for the upcoming proxy season.

The BlackRock 2022 policy update covers seven key themes:

1. Board of Directors
2. Auditors and Audit related issues
3. Capital structure, mergers, asset sales, and other special transactions
4. Compensation and benefits
5. Environmental and social issues
6. General corporate governance matters and shareholder protections
7. Shareholder proposals

Here we provide a summary of the main updates. For full details, BlackRock's Investment Stewardship Global Principles can be downloaded [here](#).

The changes, which are mostly incremental in nature, continue the investment manager's focus on ESG-related items, and aim to increase the robustness of corporate disclosures and support sustainable long-term value creation.

BlackRock's five major points of focus for this proxy season include:

Climate Risk

This policy update builds on current expectations that companies should disclose a net-zero aligned business plan relevant to their sector and business model. For 2022, **BlackRock expects companies to demonstrate their plan's resilience under various decarbonization scenarios and the goal of limiting global warming to 1.5°C**. The guidelines also encourage companies to be explicit about how their plans are impacted by considerations for a *"just transition"*, which introduces a social component to the existing approach. A just transition is defined as *"ensuring a reliable energy supply and protecting the most vulnerable from energy price shocks and economic dislocation."* Finally, BlackRock expects greater disclosure on capital allocations across alternative energy sources and transition technologies to ensure these are consistent with the company's stated transition strategy.

Board Diversity

BlackRock also strengthened their focus on diversity of personal characteristics on boards. BlackRock aims for boards to have meaningful diversity of membership, at least consistent with local market regulatory requirements and best practices. It is recognised that building a strong and diverse board can take time and for this reason BlackRock will not necessarily issue a negative vote against companies on the base of board diversity, as long as they comply with their applicable market practice. In the case that BlackRock will decide to issue a negative vote, it will likely be against the Chairman of the Board and/or against the Chairman of the Nomination Committee. BlackRock also more clearly

defined what they consider to be a meaningful level of diversity in the UK, where they believe that companies should **aim for 33% female representation and encourage, at minimum, one director of color, in line with the recommendations of the Hampton-Alexander and Parker reviews, respectively.**

Sustainability Reporting

From 2022, given continuing advances in sustainability reporting standards, BlackRock, in addition to their requirement that all companies report in alignment with the recommendations of the TCFD (Task Force on Climate-related Financial Disclosures), evolved their perspective on sustainability reporting to recognise that **companies may use standards other than of the SASB (Sustainability Accounting Standard Board).** BlackRock also reiterated their need for companies to use metrics that are industry or company specific.

ESG Compensation Metrics

BlackRock principles have long articulated their view that performance metrics for incentive plans should be stretching and aligned with a company's long-term strategy and business model. In response to inquiries from companies, as well as greater interest among other stakeholders, BlackRock have added to their 2022 Global Principles that they do not have a binary position on the use of ESG-related criteria in compensation programs, but believe that where companies choose to include them, those **metrics should be aligned with a company's strategy and business model and should be as rigorous as other financial and operational targets.**

Changes to Corporate Form

BlackRock finally introduced the position that companies or shareholders proposing to change a company's corporate form (e.g., public benefit corporation) should put the measure to a shareholder vote, if not already required to do so under applicable law. Managers or shareholders proposing the changes should **clearly articulate in their proposal how shareholders and different stakeholders would be impacted.**

Conclusion

In conclusion, BlackRock defines their 2022 Principles as *"deliberately high level and not prescriptive"*. The aim of the new policy is to inform the investee companies of BlackRock's views on key corporate governance and sustainability matters in order to help them identifying areas where their approach may differ and thus where engagement may be warranted. Moreover, BlackRock has already stated that the focus on good governance, sustainability and company performance will continue to evolve in the coming years. Strong leadership and responsiveness to changing conditions will be key to delivering value for shareholders in the face of near-term business challenges and longer-term shifts in society, including the global energy transition.