

# **BlackRock Investment Stewardship**

Proxy voting guidelines for Japan securities

Effective as of March 2024

**BlackRock**<sup>®</sup>

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These guidelines should be read in conjunction with the BlackRock Investment Stewardship [Global Corporate Governance Guidelines & Engagement Principles](#).

## Objective

BlackRock will exercise voting rights on behalf of our clients based on our fiduciary responsibility arising from the management of clients' assets. Our objective is to protect and enhance our clients' economic interest. We place emphasis on corporate governance to enhance shareholder value and promote the long-term interests of our clients.

Through focusing on shareholder value, we hope to contribute positively to promote a market environment conducive for equity investments. In establishing our philosophy and approach, we expect to participate in the development of proxy voting as a practice in Japan.

To achieve these objectives, we recognize the importance of engaging issuer companies to promote corporate governance centred on shareholder value creation. We use long-term shareholder value maximization or protection of shareholder value as the sole criterion for our proxy voting decisions. These decisions, made by our Investment Stewardship team based in Japan, will be independent of any self-interested considerations or any third-party interest and removed from any financial or business relationships with the companies voted on.

## Approach

We conduct voting decisions on a case-by-case basis. The proxy voting guideline (henceforth the Guideline) provides the principles in accordance with which we make our voting decisions. The Investment Stewardship Committee (henceforth, the Committee) may determine that an exception to the Guideline would be in the best interests of our clients; in such cases, our voting decisions may deviate from the Guideline. For any such exception, we will document the reasons for these decisions in a written or electronic format. The Guideline will be occasionally reviewed and revised by the Committee to reflect changes in the market place as well as developments in corporate governance practices.

We use an independent advisor to make judgments on our behalf if there is concern of potential conflicts of interest between us and a company to be voted on. In such cases, the advisor will apply our Guideline, and we will vote according to the advisor's recommendations. More specifically, we will follow the advisor's recommendations in exercising our voting rights regarding (i) companies affiliated with the BlackRock Group, and (ii) companies where executives / officers and employees of the BlackRock Group companies are members of the board of directors.

## Voting guideline

### Basic philosophy

The exercise of voting rights is integral to our stewardship responsibility to pursue long-term shareholder value maximization. Our approach can be summarized as having the following features: 1) Voluntary nature of corporate governance, 2) Importance of incentive compensation schemes, 3) Transparency to investors. From a market efficiency standpoint, our voting decisions will generally not be based on information that has not been publicly disclosed.

We believe the form of corporate governance could vary depending on the factors specific to a company. The optimal organizational structure for a firm would reflect these factors and in general vary according

to the firm's business model as well as the firm's competitive environment. A form of corporate governance that works well for one type of company may not work for others.

However, such a view does not necessarily imply accepting the status quo. For instance, if a company adopts anti-takeover measures, raising concerns over possible destruction of shareholder value, we will urge the company to pursue other corporate governance measures that would be more effective in protecting the interests of shareholders in general. Or if we consider a company's corporate governance dysfunctional, we may, through proxy voting, encourage the company to take governance measures that are more focused on long-term shareholder value creation. In other cases where compliance issues undermine a company's share value, we will hold management and the board accountable for such issues and recommend governance measures that would foster compliance with the law.

The alignment of the corporate managers' goals with long-term shareholder interests is an important measure to ensure good corporate governance. We consider incentive-related compensation as an effective measure to align corporate managers interests with that of shareholders. We also support stock-based compensation plans that are appropriately designed to enhance shareholder value.

Financial and non-financial transparency is crucial for a company to achieve favorable valuations in the capital market. We thus expect companies to maintain a high level of accountability to its shareholders.

Companies should have an established process for identifying, monitoring, and managing key risks. Independent outside directors and outside statutory auditors should have ready access to relevant management information and outside advice, as appropriate, to ensure they can properly oversee risk management. We encourage companies to provide transparency around risk measurement, mitigation, and reporting to the board. We are particularly interested in understanding how risk oversight processes evolve in response to changes in corporate strategy and / or shifts in the business and related risk environment. Comprehensive disclosure provides investors with a sense of the company's long-term operational risk management practices and, more broadly, the quality of the board's oversight. In the absence of robust disclosures, we may reasonably conclude that companies are not adequately managing risk and may hold the board accountable if necessary.

It is our view that well-managed companies will effectively evaluate and manage material sustainability-related risks and opportunities relevant to their businesses. Robust disclosure is essential for investors to effectively gauge companies' business practices and planning related to sustainability-related risks and opportunities.<sup>1</sup>

Our approach with regard to the relationship between securities lending and proxy voting is driven by our clients' economic interests. The evaluation of the economic desirability of recalling loans involves balancing the revenue-producing value of loans against the likely economic value of casting votes. We may at our discretion determine that the value of voting outweighs the cost of recalling shares, and thus recall shares to vote when this appears to be in the best interest of clients.

## **Voting process**

We evaluate meeting proposals based on the Guideline. Additionally, we specify a set of screening criteria, which we could use in selecting the companies in which we may further take into account individual circumstances to make a fully informed decision, in accordance to the Guideline. The screening criteria, which are stated below, may be reviewed and revised when required.

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<sup>1</sup> Please refer to "Sustainability (Environmental and social issues)"

- Incidences of regulatory sanctions against the company or criminal charges against the company or its executives / officers and / or employees
- Indicators of relevant corporate governance and material sustainability-related issues.
- Trend and level of capital productivity indicators (such as Return on Equity, etc.)

## **Engagement policy**

Engagement with an investee company is an effective strategy to develop mutual understanding between investors and investee companies. With respect to the voluntary nature of corporate governance, we view engagement as an important activity to ensure enhancement and protection of long-term shareholder value, and supporting good governance at the company.

## **Voting criteria**

We will exercise our assigned voting rights based on the provisions of the Guideline as set forth below:

# **Agenda related to the executive and supervisory board**

## **Composition of the board of directors**

We believe the form of corporate governance may vary depending on the factors specific to each company, thus we welcome companies' own decision to select its optimal corporate governance form as stipulated by the Companies Act. We strongly encourage every company to realize effective corporate governance by strengthening board oversight, as well as introducing a voluntary mechanism such as establishment of various committees. To achieve these objectives, we set the following voting criteria for both common items and items depending on the form of corporate governance structure. In our voting decisions, we take into account information obtained through engagements with each company rather than mechanically applying these criteria, and make judgements that promote long-term maximization of shareholder value. 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., appointment of outside directors as the chairs of committees) and appropriate oversight by outside directors (e.g., appointment of outside directors as chair of the board, appointment of the lead independent director).

### < 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.
- We would vote against moving back to a Statutory Auditor structure from the Audit Committee or the Three Committee structure, for instance if the change degrades the monitoring function of the board.
- Regardless of governance structures, the appointment of independent outside directors serves to protect the interests of shareholders in general. We may vote against directors who are responsible for board composition if a company appoints less than two independent directors in any forms of governance structure if there is no reasonable explanation.
- We may vote against an increase in the number of directors if not deemed appropriate.

- 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 insufficient<sup>2</sup>, and the board is unable to provide a reasonable explanation.<sup>3</sup> We may also consider other demographic characteristics such as global experience and age when assessing board diversity.

< Company with the Statutory Auditor Board ><sup>4</sup>

- In cases (1) and (2) below where we believe there are concerns of the interests of shareholders being materially impaired, we would vote against the appointment of non-independent outside directors. If less than one third of the board members are independent, we would vote against the appointment of directors who are responsible for the board composition.
  1. If the company has installed or proposes to install anti-takeover measures.
  2. If large shareholders exert control over the company.

< Company with an Audit Committee >

- We would vote against the appointment of directors responsible for the board composition if less than one third of the board members are independent.
- We would vote against the appointment of non-independent outside directors, including audit committee members.

< Company adopting the Three Committee Structure >

- For a company adopting the Three Committee Structure, it is desirable that half or more of the board members are composed of outside directors who are deemed independent to enhance the board oversight over management. We would vote against the reappointment of non-independent outside directors if less than half of the board members are independent.
- We would vote against the appointment of non-independent outside directors, including audit committee members.

## Appointment of directors

- In cases of serious social misconduct, such as violation of a law, criminal prosecution, fraudulent accounting, disturbances to public order and proper customs, where the event has materially undermined social trust and had an adverse effect on the company, we may vote against the reappointment of directors who should be held responsible. However, this may not

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<sup>2</sup> Threshold of insufficient would be one or zero for constituents of TOPIX 100 Index and zero for constituents of TOPIX Mid 400 Index.

<sup>3</sup> Please refer to “Sustainability (Environmental and social issues)” section.

<sup>4</sup> This also applies to companies on the Prime Market of Tokyo Stock Exchange once the Tokyo Stock Exchange will be re-organized.

apply in cases in which the company has taken prompt and proper steps or sanctions internally, and announced such decisions publicly to win back trust.

- For companies whose capital efficiency remains low for several consecutive years, we will vote against the reappointment of directors responsible, if we determine long-term shareholder value has been impaired<sup>5</sup>. We will evaluate the company's past and future business plans, current capital policy (including cross-shareholdings), business track record, and sector-specific factors<sup>6</sup> upon making such an assessment.
- We will also vote against reappointment of directors responsible, 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.<sup>7</sup>
- In addition to the cases above, if the decisions of the incumbent directors are considered to have clearly impaired 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 considerable level of support, we may vote against the reappointment of such directors. In any case, we will assess whether the reappointing directors are capable and can be reasonably expected to protect and enhance the interests of shareholders.
- In cases where shareholder approval over allocation of income is waived by the company's articles of incorporation, we would consider voting against the reappointment of directors if the payout amount determined by the board does not appear sustainable.
- 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.
- For the companies with material impact from sustainability issues, where we conclude that the board has failed to disclose material sustainability-related risks and opportunities despite clear need for better information to assess them, we may hold relevant directors accountable.

<sup>8</sup>

## Appointment of outside directors

- We would vote against outside directors if their attendance at board meetings is below 75% over the last year as a director, unless a convincing explanation for the low participation has been provided.
- We would consider opposing outside directors if their extremely long term tenure as an outside director raises doubts over their independence and a convincing explanation why their reappointment is in the interest of shareholders has not been provided.

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<sup>5</sup> Return on equity (ROE) has been below 5% for three consecutive years.

<sup>6</sup> For the banking sector, we will also assess sector specific profitability and operational efficiency indicators.

<sup>7</sup> Sum of cash and equivalents, short-term investments, and long-term investments is over 50% of the total assets, and the return on equity is below 5%. This guideline does not apply to banks and financials sectors as short- and long-term investments can be considered as ordinary business activities for companies in these sectors.

<sup>8</sup> Please refer to "Material sustainability-related risks and opportunities" and "Climate and nature-related risk"

- Independent outside directors are those that have no connections or relationships with the company or its executives / officers and hence not conflicted in representing the interests of general shareholders. Those with interests that might compromise their function of monitoring the company's management would not qualify. We generally deem as not independent those who have worked for some period of time as executives / officers or employees of its parent company or subsidiaries; executives / officers and employees of the company's major business partners (including brokerage firms); current and ex- 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, we would 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 history as well as that of the entities they have represented<sup>9</sup>.
- In cases where a large shareholder exerts control over the company but we conclude that a particular candidate would contribute to the long-term value creation based on information gained from proactive disclosure by the company or relevant engagement, we may support this candidate.
- However, we establish a 5 years 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 directors who serve on more than four public boards unless a reasonable explanation has been provided.

### **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 undermined social trust as well as having caused 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 appointees and vote against those who are deemed unsuitable as statutory auditors.

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<sup>9</sup> We may not consider the proposed candidate as independent if the candidate seems to represent stakeholder such as

- Large shareholder (holds 10% or above outstanding shares)
- Current and past material business partner
- Companies with interlocking directorship
- Auditors who belong(ed) to audit firms which provide audit services to the company
- Lead underwriter 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
- Family members of employees of the company.

- 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<sup>10</sup>.
- 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 would consider voting against outside statutory auditors if their long-term tenure raises doubts over their independence and if a convincing explanation 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 have 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 history as well as that of the entities they have represented. However, we establish a 5 years 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 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 audit can be secured under the new auditor.

## **Agenda related to compensation**

### **Executive compensation**

- Ideally, compensation of an executive director should be linked to their business performance. We would approve a proposal for a large increase in compensation of directors only if clear

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<sup>10</sup> The same independence criteria as outside directors will apply.

reasons or evidence of the linkage to business performance is provided. Similarly, we would approve a proposal for a large increase in compensation of statutory auditors, if evidence of the linkage to business performance is provided.

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

### **Payment of executive bonus**

- We would 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 would 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 would not support grants of retirement benefits to grantees if they have held their positions for less than two years.
- We would 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 would vote against grants of retirement benefits.
- For companies whose capital returns remain low, we would 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 if deemed appropriate.

### **Equity-based compensation**

- In principle, we would approve these proposals if the following conditions are satisfied:
  1. 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 tech sector. We would not support these proposals if the company fails to provide information necessary to evaluate the dilution impact of the proposed stock option plans.
  2. The exercise price should be reasonable relative to the market price.
- We would vote against the repricing of the exercise price.
- We would vote against the proposal if plan features such as the period of vesting is not appropriate from the point of view of creating long-term shareholder value.
- We would vote against the proposal if the proposed stock option grants are deemed to be an anti-takeover measure.

- We would approve the proposal if granted to executives / officers and employees of the company or its subsidiaries. However, we would vote against the proposal if granted to statutory auditors of the company and similarly would vote against if granted to executives / officers or employees of business partners. We would 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 expect 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/executives and interests of minority shareholders<sup>11</sup>, we would consider voting against re-election of director(s) in charge of compensation should there be lack of independent monitoring and/or insufficient disclosure.

## **Agenda related to capital policies**

### **Dividend payout**

- We would approve the dividend payout proposal if it is deemed appropriate after considering relevant factors such as the recent corporate 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 would vote against the proposal if the company holds excessive cash and securities, including cross-shareholdings, on its balance sheet<sup>12</sup>, without a credible plan or financial strategy to utilize such assets, including total shareholder return or investment plan. If the dividend payout is higher than 100% of net profit, we would evaluate the proposal by taking 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.

### **Share repurchase**

- We would vote in favour of a proposal for a share repurchase plan if the proposed amount is not excessive and where there are clear reasons to support.
- However, we would vote against a share repurchase proposal if such a transaction is deemed inappropriate. For instance, we would vote against if the company's cash flows are deemed insufficient, and if stock repurchases would negatively affect the interest of existing shareholders because of 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.

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<sup>11</sup> Include but not limited to cases where companies are paying extraordinarily large amount of compensation to their directors/executives compared to peers, and those that show low correlation between compensation growth and shareholders return.

<sup>12</sup> Sum of cash and equivalents, short-term investments, and long-term investments is over 50% of the total assets.

- 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 would approve these proposals if there is a specific purpose provided.

### **Reduction of capital**

- We would approve if the proposal 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 massive 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 would vote against 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 case of such share allotment, we look for the company to explain how minority shareholders' interests are protected and promoted; we expect companies to mitigate 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 merger, asset sale / purchase, corporate split/transfer**

- If the transaction contributes to the strengthening of the company's competitive position or furthers the company's focus on its core business, we would approve the proposal provided the decision process is deemed to be fair to all shareholders. However, we would not support the proposal if:
  1. There are concerns of conflict of interests on the part of lead banks providing finance that will undermine maximization of shareholder interest.
  2. 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.
  3. 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 we believe they work against transactions for company control which is supportive of value creation of businesses and generally positive for the economy.
- We would vote against in principle any measures that would undermine shareholder rights. Thus, we would vote against a different class of shares to be granted to a subset of shareholders with special voting rights, e.g. veto rights at shareholders 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 would 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 would 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 believe it necessary that takeover defence measures 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 account of 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 would 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 guideline. We will not support renewal or introduction of such defence measures for a company whose market value has slumped, for instance, due to serious social misconduct or a prolonged state of sluggish 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**

- Changes to the articles of incorporation involve various matters including, but not limited to, the items below. For items which are not stated in the provisions below, we will make decisions on a case-by-case basis. We will examine the changes based on whether the proposal is not excessively restrictive of shareholder rights, and is not causing concerns regarding shareholder value or protection of shareholder interests.

## **Number of directors**

- In principle, we would approve 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 would generally approve a reduction in the upper limit that is proposed in relation to the down-sizing of the board resulting from a review of its role with relation to the management of the company.

## **Number of statutory auditors**

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

## **Removal of directors at a shareholder meeting**

- We would 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 would 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 would 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 would 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 would vote against the article revision to exclude from agenda of a shareholder meeting any resolutions relating to dividend payout. However, if we conclude that there are no issues with the company regarding its financial policies including 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 would 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 would 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 would vote against this if the company's cash flows is deemed insufficient; or if share repurchases are deemed to negatively affect the interests of existing shareholders because of 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 would vote in favour 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' interest.
- 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 stocks, by taking account the objectives, the rights of holders, tenure, and the convertibility to common stock. We would also take account of the qualifications of purchasers, effects on the rights of existing shareholders, and any past history of abusive issuance.
- With regard to creation and issuance of preferred stocks 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 would 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 would 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 would vote against a proposal to change the fiscal year to close in March if no proper reason is given.

## **Virtual-only shareholders meetings**

- We would support proposals which enable the company to hold its shareholders meetings without specifying a physical location (virtual-only shareholders meetings), unless there are significant corporate governance concerns.

## **Shareholder proposals**

When assessing shareholder proposals, we evaluate each proposal on its merit, with a singular focus on its implications for long-term value creation. We consider the business and economic relevance of the issue raised, as well as its materiality and the urgency with which it should be addressed. We take into consideration the legal effect of the proposal as shareholder proposals may be advisory or legally binding depending on the jurisdiction. We would not support proposals that we believe would result in over-reaching into the basic business decisions of the issuer.

Where a proposal is focused on an issue that we agree needs to be addressed and the intended outcome is consistent with long-term value creation, we will look to the board and management to demonstrate that the company has met the intent of the request made in the shareholder proposal. Where our analysis and / or engagement indicate a need for improvement in the company's approach to the issue, we will support shareholder proposals that are reasonable and not unduly constraining on management. Alternatively, or in addition, we may vote against the re-election of one of more directors if, in our assessment, the board has not responded sufficiently or with an appropriate sense of urgency.

## **Material sustainability-related risks and opportunities**

It is our view that well-managed companies will effectively evaluate and manage material sustainability-related risks and opportunities relevant to their businesses. As with all risks and opportunities in a company's business model, appropriate oversight of material sustainability considerations is a core component of having an effective governance framework, which supports durable, long-term financial value creation.

Robust disclosure is essential for investors to effectively evaluate companies' strategy and business practices related to material sustainability-related risks and opportunities. Long-term investors like our clients can benefit when companies demonstrate that they have a resilient business model through disclosures that cover governance, strategy, risk management, and metrics and targets, including industry-specific metrics. The International Sustainability Standards Board (ISSB) standards, IFRS S1 and

S2,<sup>13</sup> provide companies with a useful guide to preparing this disclosure. 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 converged under the ISSB. We recognize that companies may phase in reporting aligned with the ISSB standards over several years. We also recognize that some companies may report using different standards, which may be required by regulation, or one of a number of voluntary standards. In such cases, we ask that companies highlight the metrics that are industry- or company-specific.

We note that climate and other sustainability-related disclosures often require companies to collect and aggregate data from various internal and external sources. We recognize that the practical realities of data collection and reporting may not line up with financial reporting cycles and companies may require additional time after their fiscal year-end to accurately collect, analyze, and report this data to investors. That said, to give investors time to assess the data, we encourage companies to produce climate and other sustainability-related disclosures sufficiently in advance of their annual meeting, to the best of their abilities.

Companies may also choose to adopt or refer to guidance on sustainable and responsible business conduct issued by supranational organizations such as the United Nations or the Organization for Economic Cooperation and Development. Further, industry initiatives on managing specific operational risks may provide useful guidance to companies on best practices and disclosures. We find it helpful to our understanding of investment risk when companies disclose any relevant global climate and other 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. We will express any concerns through our voting where a company's actions or disclosures do not seem adequate in light of the materiality of the business risks.

## **Climate and nature-related risk**

While companies in various sectors and geographies may be affected differently by climate-related risks and opportunities, the low-carbon transition is an investment factor that can be material for many companies and economies around the globe.

We seek to understand, from company disclosures and engagement, 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, including a scenario in which global warming is limited to well below 2°C, considering global ambitions to achieve a limit of 1.5°C. As one of many shareholders, and typically a minority one, BlackRock does not tell companies what to do. It is the role of the board and management to set and implement a company's long-term strategy to deliver long-term financial returns.

Our research shows that the low-carbon transition is a structural shift in the global economy that will be shaped by changes in government policies, technology, and consumer preferences, which may be material for many companies.<sup>14</sup> Yet the path to a low-carbon economy is deeply uncertain and uneven, with different parts of the economy moving at different speeds. BIS recognizes that it can be challenging for companies to predict the impact of climate-related risk and opportunity on their businesses and operating environments. Many companies are assessing how to navigate the low-carbon transition while

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<sup>13</sup> The objective of IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information is to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity. The objective of IFRS S2 Climate-related Disclosures is to require an entity to disclose information about its climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

<sup>14</sup> BlackRock Investment Institute, "Tracking the low-carbon transition", July 2023.

delivering long-term value to investors. In this context, we encourage companies to publicly disclose, consistent with their business model and sector, how they intend to deliver long-term financial performance through the transition to a low-carbon economy. Where available, we appreciate companies publishing their transition plan.<sup>15</sup>

Consistent with the ISSB standards, we are better able to assess preparedness for the low-carbon transition when companies disclose 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 companies choose to make regarding scope 3 emissions and recognize these are provided on a good-faith basis as methodology develops.

In addition to climate-related risks and opportunities, the management of nature-related factors is increasingly a component of some companies' ability to generate durable, long-term financial returns for shareholders, particularly where a company's strategy is heavily reliant on the availability of natural capital, or whose supply chains are exposed to locations with nature-related risks. We look for such companies to disclose how they manage any reliance and impact on, as well as use of, natural capital, including appropriate risk oversight and relevant metrics and targets, to understand how these factors are integrated into strategy. We will evaluate these disclosures to inform our view of how a company is managing material nature-related risks and opportunities, as well as in our assessment of relevant shareholder proposals.

## Other corporate governance matters

### Diversity

We are interested in diversity in the board room as a means to promoting diversity of thought and avoiding 'group think' in the board's exercise of its responsibilities to advise and oversee management. It allows boards to have deeper discussions and make more resilient decisions. We ask boards to disclose how diversity is considered in board composition, including professional characteristics, such as director's industry experience, specialist areas of expertise and geographic location; as well as demographic characteristics such as gender, race/ethnicity and age. We look to understand a board's diversity in the context of a company's domicile, market capitalization, business model and strategy. Increasingly, we see leading boards adding members whose experience deepens the board's understanding of the company's customers, employees and communities. Self-identified board demographic diversity can usefully be disclosed in aggregate, consistent with local law. We believe boards should aspire to meaningful diversity of membership, at least consistent with local regulatory requirements and best practices, while recognizing that building a strong, diverse board can take time.

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<sup>15</sup> We have observed that more companies are developing such plans, and public policy makers in a number of markets are signaling their intentions to require them. We view transition plans (TPs) as a method for a company to both internally assess and externally communicate long-term strategy, ambition, objectives, and actions to create financial value through the global transition towards a low-carbon economy. While many initiatives across jurisdictions outline a framework for TPs, there is no consensus on the key elements these plans should contain. We view useful disclosure as that which communicates a company's approach to managing financially material, business relevant risks and opportunities – including climate-related risks – to deliver long-term financial performance, thus enabling investors to make more informed decisions.

This position is based on our view that diversity of perspective and thought – in the board room, in the management team and throughout the company – leads to better long term economic outcomes for companies.-In our experience, greater diversity in the board room contributes to more robust discussions and more innovative and resilient decisions. Over time, greater diversity in the board room can also promote greater diversity and resilience in the leadership team, and the workforce more broadly. That diversity can enable companies to develop businesses that more closely reflect and resonate with the customers and communities they serve.

## Want to know more?

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