

April 16, 2021

Comisión para el Mercado Financiero
Avda. Libertador Bernardo O'Higgins 1449
Santiago, Chile

Ref.: Comments to CMF Regulatory Proposal regarding ESG factors: Incorporation of Sustainability and Corporate Governance Issues in the Annual Report

Dear Sir or Madam:

We refer to the latest regulatory proposal regarding Environmental, Social and Governance ("ESG") factors, titled "Second Report: Incorporation of Sustainability and Corporate Governance Issues in the Annual Report" (the "Proposal"), which was published on March 22, 2021 and is currently under public consultation by the Commission for the Financial Market ("CMF").

Introduction – Trends in ESG Regulation

BlackRock ("BLK") is supportive of the Proposal, as it believes that, as a general matter, ESG factors are fundamental items to consider when making investment decisions. As a result, ESG data and indicators, especially those that are material to the future financial results of a securities issuer, should be incorporated, to the extent possible, into the analysis and risk management of investments alongside other material factors. Our view is that, in order for such ESG data to be properly considered by investors, it is important that securities issuers report ESG information in a manner that is meaningful for investors to understand and analyze. In our view, many factors that could be considered within the scope of such ESG factors can have material impacts, especially in the long term, on the performance of securities issuers on investors' decisions and, as a consequence, on investment results.

It is BLK's view that ESG data collection and portfolio-level regulation of ESG factors are becoming the new global standard, with regulators from the European Union to Mexico mandating the disclosure of ESG data at various levels of the investment cycle. In particular, we have seen new regulations regarding ESG disclosures at the level of security issuers, asset managers, asset owners (such as pension funds and insurance companies), for investment products such as "green bonds" and sustainable investment funds, and even traditional financial products as well. BLK believes that ESG disclosures at each level of the financial ecosystem are interconnected, with issuer-level disclosures (such as those contained in the Proposal) serving as essential informational "building blocks" for the development of a sustainable finance system. Furthermore, for a financial system to maximize the benefit of an ESG disclosure regime for international investors, we believe that alignment with internationally recognized standards such as SASB and TCFD are crucial to this process as well. In terms of corporate governance, we believe that a corporate board's responsibility—consistent with their fiduciary duties—is overseeing the strategic direction and operation of the company. For this reason, BLK interprets the election of directors as one of our most critical fiduciary responsibilities.

Companies are responsible for ensuring they have appropriate governance structures to serve the interests of shareholders and other key stakeholders. We believe

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that there are certain fundamental rights attached to shareholding. Companies and their boards should be accountable to shareholders and structured with appropriate checks and balances to ensure that they operate in shareholders' best interests to create sustainable value. Integrating ESG factors crucially requires information and data to be publicly reported to the market. In that context, BLK considers that currently the local data and information disclosed to the market by Chilean issuers is not sufficiently robust, widespread and timely; in addition, Chile lacks standardization in ESG metrics and standards. The Proposal, we believe, is consistent with emerging global regulatory trends that recognize the importance of ESG factors, and would take substantial steps towards ameliorating this current deficit.

Social and Environmental Reports

The inclusion of Social and Environmental reporting included within the annual report of issuers of publicly offered securities, as provided in the Proposal, is a measure consistent with the abovementioned BLK's vision and an important progress regarding the disclosing of ESG factors to the market, as it allows investors to access information on ESG factors of issuers in a centralized manner. Such issuer-level disclosures, if aligned to international standards, create the basis for an ESG informational flow that can benefit the entire financial ecosystem in Chile and also, we believe, support better investment decisions by foreign and domestic investors alike into Chilean financial markets.

BLK believes that the Proposal is an improvement over the 2019 proposal, as: (i) it restructures the entire annual report, presenting information on ESG factors in a harmonized and integrated manner (allowing stakeholders to have information on ESG factors integrated into a single document); (ii) it includes information on corporate governance that was not considered in the 2019 CMF proposal; and (iii) adopts the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and the standards put forward by the Sustainability Accounting Standards Board (SASB) as the benchmark frameworks for an issuer to disclose its approach to climate-related risks and sustainability matters. This supports the alignment of the ESG indicators of Chilean issuers with foreign issuers in respect of the matters covered by TCFD and SASB, which BLK believes is a key element in the steps towards a convergence of global standards in sustainable investing.

However, there are areas where BLK believes the proposal could be improved to achieve the objectives of the proposed regulation. Certain components of the information requested in respect of ESG data, particularly those in Letter D of the proposed general rule included in the Proposal, in our view, could be simplified and refined in certain respects. In broad terms, we think that the Proposal, which includes what we would consider to be a fairly *prescriptive* list of specific informational items that the issuer must report, which may be too abundant and complex in a way that detracts from its financial value to investors. We believe that requesting an excess of information, some of which may not be material to each issuer, may discourage a complete and detailed response from some issuers, which may in turn lead to incorrect or incomplete answers. We would suggest instead to shift towards an emphasis on financial materiality, and having the issuer determine the material value of such items to their industry utilizing the SASB's sector specific materiality standards.

In our experience, inaccurate or vague information reported to the market may be worse than no information at all, as the former affects the credibility of the other

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information and the trust of stakeholders in them. Likewise, information not meeting international disclosure standards makes it more difficult to understand information reported by Chilean issuers and its comparison with information reported by foreign issuers.

Corporate Governance

While the incorporation of corporate governance matters in the annual report is an improvement, we do have concerns about the items listed in Letter B of the proposed general rule included in the Proposal. BLK believes that is advisable to request from the issuers less but more essential information, addressing fundamental corporate governance matters. Corporate governance is a key topic for issuers, investors, and other stakeholders in Latin America, so the provision of essential, comparable, and correct information on corporate governance is key to the investment process.

BLK recognizes that accepted standards and norms of corporate governance differ between markets; however, there are sufficient common threads globally to identify this overarching set of principles that are anchored in transparency and accountability. Attached as **Annex A** is for your reference a brief description of BLK's global principles (further described in "BlackRock Investment Stewardship - Global Principles"¹) and Latin America Voting Guidelines² which inform BLK's voting decisions as a shareholder. BLK believes that issuers should report corporate governance information in a way consistent with our engagement priorities³ and global principles that relates to the matters described in Annex A.

Also, BLK considers that clarification is needed regarding the mandatory nature of the adoption of corporate governance practices detailed in the Proposal. We understand that issuers must provide information about their practices, but the adoption of specific practices appears to be voluntary, as currently regulated in General Rule No. 385. Given this is not explicitly reflected in the Proposal, we believe it should be clarified within the final rule itself.

Conclusion – Materiality as Guiding Standard

BLK has the strong view that the information requested from securities issuers in all markets around the world in matters of ESG disclosures is most effective when it is determined based on the standard of financial materiality, therefore striking a balance between material and immaterial information is essential. Otherwise, there is a risk of undermining the objective of the regulation on disclosure of ESG factors, as it does not facilitate understanding and compliance by stakeholders but rather increase the risk of misreporting by issuers.

Furthermore, BLK is of the opinion that the reporting of ESG factors is an issue that is continuously evolving. ESG reporting obligations should be constantly updated according to market needs and trends. To that effect, we believe that the Proposal is a

¹Available at: <https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-engprinciples-global.pdf>

² <https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-latam.pdf>

³ <https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-priorities>

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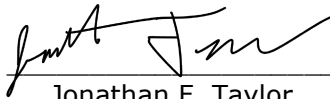
substantial development of, and improvement upon, the initial regulation in Chile (General Rule No. 385 and General Rule No. 386). However, it is important to note that this regulation, even if it is adopted in a final form, should consider room for future updates, as markets evolve and transition.

Finally, BLK believes that, to best develop the sustainable finance ecosystem, the Proposal and future regulation by the CMF would work best if it is harmonized and consistent with current and future regulations on ESG factors by other Chilean regulators, especially the Superintendence of Pensions, in addition to being aligned with best in class global standards and practices. Should the CMF like to receive more information about the global regulatory context, our in-house experts are available to help facilitate conversations about this topic. To that end BLK would like to formally request participation in the roundtable conversations to be held by the CMF for stakeholders on the topic of ESG disclosure regulation.

Sincerely,



Andrés De Goyeneche
Country Manager, Chile
BLACKROCK



Jonathan F. Taylor
Head of Legal, Chile
BLACKROCK



Annex A

Brief Description of BlackRock Investment Stewardship - Global Principles⁴ & Global Priorities⁵

BLK believes that shareholders have a right to material and timely information on the financial performance and viability of the companies in which they invest. In addition, companies should also publish information on the governance structures in place and the rights of shareholders to influence these structures. The reporting and disclosure provided by companies help shareholders assess whether their economic interests have been protected and the quality of the board's oversight of management.

(a) Boards and directors: BLK supports boards whose approach is consistent with creating sustainable long-term value. This includes the effective management of strategic, operational, and material ESG factors and the consideration of key stakeholder interests. The board should establish and maintain a framework of robust and effective governance mechanisms to support its oversight of the issuer's strategic aims.

Board composition, effectiveness, and accountability remain top priorities. In our experience, most governance issues, including how material sustainability issues are managed, require effective board leadership and oversight. We engage to better understand how boards assess their effectiveness and performance, as well as their position on director responsibilities and commitments, turnover and succession planning, crisis management, and diversity.

Also, BLK expects disclosures to demonstrate how diversity is accounted for within the proposed board composition, before its appointment, including demographic factors such as gender, ethnicity, and age; as well as professional characteristics, such as a director's industry experience, specialist areas of expertise, and geographic location.

(b) Climate and Natural Capital: BLK have engaged with companies on environmental risks and opportunities for several years. Each year we build on our expectations of companies as we seek to understand how they are mitigating climate-related risks and implementing plans to transition to a low-carbon economy. In addition, companies should consider their impact and dependence on natural capital. The management of these factors can be a defining feature in companies' ability to generate long-term sustainable value for shareholders.

- **Climate:** We expect companies to articulate how they are aligned to a scenario in which global warming is limited to well below 2° C, consistent with a global aspiration to reach net zero greenhouse gas (GHG) emissions by 2050. Companies should provide disclosure aligned with the four pillars of the TCFD framework, including scope 1 and scope 2 emissions, along with accompanying GHG emissions reduction targets. Carbon-intensive companies should also disclose scope 3 emissions.

⁴ Complete document with BlackRock Investment Stewardship - Global Principles is available online at <https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-engprinciples-global.pdf>

⁵ <https://www.blackrock.com/corporate/about-us/investment-stewardship#engagement-priorities>

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- **Natural Capital:** We encourage companies to disclose how their business practices are consistent with the sustainable use and management of natural capital, including natural resources such as air, water, land, minerals and forests. This disclosure should address companies' impact in the communities in which they operate. Companies with material dependencies or impacts on natural habitats should publish "no-deforestation" policies and strategies on biodiversity.

(c) Strategy, Purpose, and Financial Resilience: For several years we have asked companies to articulate their strategic frameworks for long-term value creation and to affirm that their boards have reviewed those plans. Corporate strategy disclosures should clearly explain a company's purpose, i.e. what it does every day to create value for its stakeholders. We believe that companies with a clearly articulated purpose that is reflected in their long-term strategy are more likely to have engaged employees, loyal customers, and support from other key stakeholders.

- **Auditors and audit-related issues:** BLK recognizes the critical importance of financial statements, which should provide a true and fair picture of a company's financial condition. Accordingly, the assumptions made by management and reviewed by the auditor in preparing the financial statements should be reasonable and justified. Audit committees, or equivalent, play a vital role in a company's financial reporting system by providing independent oversight of the accounts, material financial and non-financial information, internal control frameworks, and Enterprise Risk Management systems. BLK believes that effective audit and risk committee oversight strengthens the quality and reliability of a company's financial statements and provides an important level of reassurance to shareholders.

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. The audit committee or equivalent should periodically review the company's risk assessment and risk management policies and significant risks and exposures identified by management, the internal auditors, or the independent accountants, and management's steps to address them. In the absence of robust disclosures, BLK may reasonably conclude that companies are not adequately managing risk.

- **Capital structure, mergers, asset sales, and other special transactions:** 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. Pre-emptive rights are a key protection for shareholders against the dilution of their interests. Effective voting rights are basic rights of share ownership and BLK believes strongly in one vote for one share as a guiding principle that supports effective corporate governance. Shareholders, as the residual claimants, have the strongest interest in protecting company value, and voting power should match economic exposure.

(d) Incentives Aligned with Value Creation: We expect boards to establish incentive structures and determine pay outcomes in the context of a company's long-term strategy and its implementation. We believe that compensation policies should incentivize executives to deliver on strategic and operational objectives that contribute to sustainable long-term value creation.

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(e) Company Impacts on People: We believe that BlackRock's clients, as shareholders, will benefit if companies create enduring sustainable value for all stakeholders. In our experience, companies that build strong relationships with their stakeholders are more likely to meet their own strategic objectives, while poor relationships may create adverse impacts that expose a company to legal, regulatory, operational and reputational risks and jeopardize their social license to operate. In addition to addressing workforce needs and expectations, we expect companies to mitigate adverse impacts to people that could arise from their business practices, exposing them to material risks.
