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BlackRock Announces New KPIs for Public Companies,
Tougher Director Votes and Continued High Expectations During COVID-19 Pandemic

BlackRock has released its 2020 engagement priorities and voting expectations for this year's proxy season. These reflect a sharpened, as well as more blunt and direct, focus on sustainability-related issues and relevant disclosures (whether in proxy statements, SEC reports or voluntary disclosure formats), reflecting the consensus by major institutional investors that these issues have a growing impact on long-term value creation and risk. As further highlighted below, public companies should especially take note of BlackRock's newly articulated key performance indicators (KPIs) for companies. BlackRock will now link performance against these KPIs to their voting decisions for or against boards and individual directors.

BlackRock also confirmed its expectations that companies continue to demonstrate strong governance and practices in responding to the global coronavirus pandemic and related volatility while recognizing there will be changes in annual meeting formats this year and human, as well as business, impacts. Michelle Edkins, BlackRock's Global Head of Investment Stewardship, stated, "*The concept of long-term sustainability would suggest that companies that come through this crisis and do well would be exactly the kinds of companies you would look to as role models*" and that "*Companies can still demonstrate that they have effective leadership. In times of crisis that becomes more apparent, not less apparent*." As companies focus and marshal resources to understand, navigate and address the pandemic's implications, they will also need to assess how to remain well-positioned to address shareholder engagement requests, adverse proxy advisory firm recommendations, negative investor votes and activism during these uncertain times.

BlackRock's new KPIs extend to all public companies, applying across industries and market capitalizations. They span the areas of board quality, human capital management, corporate strategy and capital allocation, environmental risks and opportunities and executive compensation. Companies that have developed their own "KPIs" and measures with respect to these and other key areas will find BlackRock to be a highly receptive audience. Below is a high-level summary of the BlackRock KPIs for companies and potential voting consequences:

Board Quality KPIs:
- Disclosure explaining how, and how effectively, a board oversees and counsels management, plus the opportunity for BlackRock to have direct engagement with a non-executive, preferably independent, board member.
- Negative voting action against the most senior non-executive director (*e.g.* chairman or lead independent director), if the company has not identified which director(s) would be accessible to shareholders where appropriate.

Human Capital Management KPIs:
- Disclosure as to the board's role in overseeing the company's human capital management strategies and practices, including an explanation of the type of information reviewed by the board and how frequently.

- Negative voting against relevant board committee members, or the most senior non-executive director, in the absence of such disclosure.

Corporate Strategy and Capital Allocation KPIs:
- Disclosure as to how industry sector-relevant sustainability risks and opportunities (*e.g.* as identified by the Sustainability Accounting Standards Board (SASB) standards) are integrated into long-term business strategy and capital allocation, in addition to disclosure explaining a company's purpose (*i.e.*, "what it does every day to create value for its stakeholders"), long-term strategic goals, applicable measures of value creation, milestones that will demonstrate progress and steps taken in response to challenges.
- Negative voting against the most senior non-executive director if, within an agreed timeframe, the company has not provided adequate disclosures and made progress on underlying business practices.

Environmental KPIs:
- For companies with whom BlackRock has previously engaged to encourage reporting that aligns with Task Force on Climate-related Financial Disclosures (TCFD) recommendations, disclosure in sufficient detail across the four TCFD pillars **and** a disclosed timeframe by which the company will report fully in line with the 11 TCFD recommendations.
- Negative voting in 2020 against relevant board committee members, or the most senior non-executive director, in connection with inadequate disclosures and inadequate underlying business practices. For the 2021 voting season, negative voting against a broader set of companies and their directors if the company has not addressed BlackRock's request that, by the end of 2020, the company issue reports aligned with the SASB and TCFD recommendations.

Executive Compensation KPIs:
- Disclosure and engagement regarding adequate alignment and connection between executive pay / incentive plan design and strategy, performance and long-term shareholder value and investment returns. BlackRock will evaluate not just NEO compensation structures, but also company-wide structures in assessing a company's ability to retain and attract all levels of talent and its human capital management practices.
- Negative voting against compensation committee members (and not just "say-on-pay") possible, with heightened risk of dissatisfaction if pay outcomes and design are not correlated with a business-relevant long-term performance metric (*e.g.* three- to five-year total shareholder returns, returns on invested capital or other appropriate measures).

Beyond these KPIs, the engagement priorities also provide important color and context regarding BlackRock's approach to stewardship. BlackRock will also provide more transparency by publicly and promptly disclosing the rationale for key votes, sharing more information about company engagements and moving to quarterly, instead of annual, disclosures revealing how BlackRock actually voted its proxies. BlackRock's new explicit presentation as to how its engagement priorities align with the United Nations Sustainable Development Goals (SDGs) also provide an engagement opportunity for companies who are familiar with the SDGs and have leveraged the SDGs into their own strategic planning and sustainability-related initiatives and disclosures.

These statements extend BlackRock's earlier announcements this year that it would take a firmer stance in engagements and voting decisions and push companies to implement standardized and accelerated ESG and sustainability disclosures. In addition to publishing updated stewardship guidance about climate risk engagement and SASB- and TCFD-aligned reporting, BlackRock's Chairman and Chief Executive Officer Larry Fink's 2020 letter to CEOs endorsed both the industry-specific SASB standards and the climate-specific TCFD framework as the benchmark frameworks.

BlackRock also published its formal U.S. proxy voting and governance guidelines, which confirmed the one-year grace period as to certain director-related independence and over-boarding guidelines (which grace period may have lapsed for some companies, meaning that director withholds will be more likely to occur this year). During such grace periods and other time periods where BlackRock and a company have agreed to address an issue within a reasonable timeframe, BlackRock "expects boards to take steps to bring corporate governance standards in line with our expectations." Where a company falls short on disclosure or substance, withhold and "against" director votes will increasingly result from BlackRock. These issues may also factor into BlackRock's voting decisions in contested director elections and activism campaigns.

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