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BlackRock's New 2021 KPIs and Engagement Priorities for Public Companies— Director Engagement, Tougher Votes and Raised Expectations

Building on previously updated stewardship expectations and voting guidelines, BlackRock has released new 2021 priorities for engagement and disclosure:

(1) Board Quality and Effectiveness (including board diversity);
(2) Climate and Natural Capital;
(3) Strategy, Purpose, and Financial Resilience;
(4) Incentives Aligned with Value Creation; and
(5) Company Impacts on People (including workforce diversity and adverse impacts).

BlackRock has also introduced updated key performance indicators (KPIs) for public companies and expanded their expectations for corporate purpose, ESG, sustainability and stakeholder governance-related disclosures.

Accordingly, companies should expect and prepare for **more requests for director-level engagement, greater support for shareholder proposals that BlackRock would have previously opposed, a higher likelihood of withhold votes against directors and sharper scrutiny of disclosures and pace of progress against plans to address perceived shortfalls**.

As BlackRock is now more likely to vote against a director's re-election where BlackRock believes a company is not adequately addressing a key business risk or opportunity (including inadequate disclosures) or is not responsive to shareholders, companies should have appropriate strategies and plans in place for anticipating or resolving such issues through constructive engagement or action. The 2021 KPIs include:

Board Quality and Effectiveness KPIs: In addition to disclosures regarding board quality and skillsets, shareholder engagement protocols should include an opportunity for BlackRock to access non-executive/independent directors when engaging on board practices and oversight. Disclose the board's approach to ensuring appropriate board diversity and disclose a demographic profile of the incumbent board.

Climate KPIs: TCFD-aligned disclosures across all four TCFD pillars; disclose Scope 1 and Scope 2 emissions, accompanying greenhouse gas (GHG) emissions reduction targets, and, for carbon-intensive companies, Scope 3 emissions. Disclose of climate action plans, including company alignment with a scenario in which global warming is limited to "well below 2° C", consistent with a global aspiration to reach net zero GHG emissions by 2050.

Natural Capital KPIs: Disclose how business practices are consistent with the sustainable use and management of natural capital, including natural resources such as air, water, land, minerals and forests. Disclose the company's impact on communities in which they operate. Companies with material dependencies or impacts on natural habitats should publish "no-deforestation" policies and strategies on biodiversity.

Strategy, Purpose and Financial Resilience KPIs: Disclose corporate purpose in strategy disclosures, explain how managing financial resilience and a changing business environment affects capital allocation decisions, and set out how the company integrates business relevant sustainability risks and opportunities into corporate strategy. Demonstrate long-term value creation, evidenced by business model relevant metrics. Report in line with SASB-sector specific metrics, including to explain how key stakeholders' interests have been considered in business decision-making.

Incentives Aligned with Value Creation KPIs: Disclose how compensation and incentives are aligned with, and linked to, performance, value creation and business-relevant long-term (e.g., 3-5 year) performance metrics.

Company Impacts on People KPIs: Demonstrate a robust approach to human capital management (HCM) and disclose how HCM aligns with business strategies and business models. Disclose actions taken to support a diverse and engaged workforce and disclose a demographic profile of the company's workforce. As to adverse impacts to people arising from a company's business practices, implement processes to identify, manage and prevent such impacts and provide evidence of board oversight, due diligence and remediation of adverse impacts that have occurred.

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