

BlackRock Investment Stewardship

Proxy voting guidelines for Australian securities
Effective as of January 2024

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

Executive Summary

As part of our fiduciary duty to our clients, we consider it one of our responsibilities to promote sound corporate governance as an informed, engaged shareholder on their behalf. At BlackRock, this is the responsibility of the BlackRock Investment Stewardship (BIS) team.

In our experience, sound governance is critical to the success of a company, the protection of investors' interests, and long-term financial value creation. We have also observed that well-managed companies will effectively evaluate and address risks and opportunities relevant to their businesses, which supports durable, long-term financial value creation. As one of many minority shareholders, BlackRock cannot – and does not try to – direct a company's strategy or its implementation. Rather, we take a constructive, long-term approach with companies and seek to understand how they are managing the drivers of risk and financial value creation in their business models.

BIS has developed guidelines for the key markets in which it invests. The regional guidelines incorporate the legal framework of each region as well as the specific regional market practices. There may be slight variances due to differing market practices across regions.

Our policy for Australia is based on the guidelines established by the Corporate Governance Principles and Recommendations of the Australian Securities Exchange Corporate Governance Council (updated in 2019) (ASXCGC), the Australian Council of Superannuation Investors (ACSI), the Australian Prudential Regulatory Authority Prudential Standards and Prudential Practice Guide (APRA) and the Financial Services Council (FSC). These all have in common the principles of accountability, transparency, fairness and responsibility.

Our approach to voting and corporate engagement is also informed by the FSC Guidance Notes and other guidance on exercising ownership responsibilities issued by organizations such as the Principles of Responsible Investment and the International Corporate Governance Network. We are actively involved in these organizations and believe our principles are consistent with their guidance.

“If not why not” approach

We strongly believe the “if not why not” approach of the ASX Corporate Governance Principles provides the appropriate mechanism for ensuring effective pragmatic governance of Australian listed companies. We ask every listed company to provide a meaningful statement as to their adherence to the ASX Corporate Governance Principles and explicit justification of any deviation from either set of principles, explaining how these serve the interests of the company's shareholders.

Engagement

Engagement enables us to have ongoing dialogue with non-executive directors¹ on the board and with management teams, to discuss practices and structures that we consider to be supportive of durable long-term financial value creation. These include board oversight of management, board structure and performance, strategy and capital allocation, and executive remuneration. The team also discusses with

¹ In these guidelines, references to non-executive directors should be construed as including supervisory board members.

companies material sustainability-related risks that could impact their long-term performance and achievement of strategic objectives. Further details on BIS engagement priorities can be found [here](#).

BIS looks to companies to provide timely, accurate and comprehensive reporting on all material governance and sustainability-related risks. This allows shareholders to appropriately understand and assess how relevant risks and opportunities are being effectively identified and managed. Where company reporting and disclosure is inadequate or the approach taken is inconsistent with our view of what supports sustainable long-term value creation, we will engage with a company and/or use our vote to encourage a change in practice.

BIS views engagement as an important activity; engagement provides us with the opportunity to improve our understanding of the business and sustainability risks and opportunities that are material to the companies in which our clients invest. As long-term investors on behalf of clients, we seek to have regular and continuing dialogue with executives and board directors to advance sound governance and sustainable business practices, as well as to understand the effectiveness of the company's management and oversight of material issues. Engagement is an important mechanism for providing feedback on company practices and disclosures, particularly where we believe they could be enhanced. We primarily engage through direct dialogue but may use other tools such as written correspondence to share our perspectives. Engagement will also inform our voting decisions.

Proxy voting guidelines for Australian securities

These guidelines will be used to assist BIS in assessing proposals presented at shareholder meetings. When assessing any proposal put to shareholders BIS takes into account the unique circumstances of the relevant company and of the potential impact of such a proposal on the sustainable growth of the company. We aim to engage with management or members of the board, as appropriate, on contentious and high profile issues before determining how to vote. Where we decide to vote against management or abstain from voting on a particular proposal we advise the company in advance whenever possible.

These guidelines are divided into eight key themes as follows:

- Boards and directors
- Accounts, statutory reports and auditors and audit-related issues
- Capital management
- Capital structure, mergers, asset sales and other special transactions
- Remuneration and benefits
- Material sustainability-related risks and opportunities
- Shareholder proposals
- General corporate governance matters

Boards and directors

An effective and well-functioning board is critical to the economic success of the company and the protection of shareholders' economic interests, including the establishment of appropriate governance structures that facilitate oversight of management and the company's strategic initiatives. As part of their responsibilities, board members owe fiduciary duties to shareholders to oversee the strategic direction, operations, and risk management of the company. For this reason, BIS sees engagement with and the election of directors as one of our most critical responsibilities.

Disclosure of material risks that may affect the company's long-term strategy and financial value creation, including, material sustainability-related factors when relevant, is essential for shareholders to appropriately understand and assess how effectively management is identifying, managing, and mitigating such risks.

The board should establish and maintain a framework of robust and effective governance mechanisms to support its oversight of the company's strategy and operations consistent with the long-term economic interest of investors. There should be clear descriptions of the role of the board and the committees of the board and how directors engage with and oversee management. We look to the board to articulate the effectiveness of these mechanisms in overseeing the management of business risks and opportunities and the fulfilment of the company's purpose and strategy.

Where a company has not adequately disclosed and demonstrated that the board has fulfilled these corporate governance and risk oversight responsibilities, we will consider voting against the re-election of directors who, in our assessment, have particular responsibility for the issues. We assess director performance on a case-by-case basis and in light of each company's circumstances, taking into consideration our assessment of their governance, and business practices that support durable, long-term financial value creation and performance

Board access

As a long-term shareholder, BIS considers it important to maintain an open dialogue with companies in which we invest on behalf of our clients. We prefer this dialogue to happen at the board level as this body is responsible for corporate governance decisions and strategy, as elected representatives of shareholders.

Therefore, non-executive board members should be available to meet with shareholders from time to time. The most senior independent director or another appropriate director should be available to shareholders in those situations where an independent director is best placed to explain and justify a company's approach. In a situation where relevant non-executives repeatedly refuse to meet shareholders, we would consider a vote against member(s) of the board whom we hold accountable, starting with the most senior non-executive director.

Director accountability

Directors should stand for election on a regular basis, ideally annually. In our experience, annual director elections allow shareholders to reaffirm their support for board members and/or hold them accountable for their decisions in a timely manner.

When board members are not elected annually, in our experience, it is good practice for boards to have a rotation policy to ensure that, through a board cycle, all directors have had their appointment re-confirmed, with a proportion of directors being put forward for election at each annual general meeting. Companies should provide a clear explanation for their approach if no rotation policy is adopted. In some

jurisdictions, if the proposed term exceeds local market practice and/or extends above four years, we may consider opposing the re-election of the nomination committee members.

Effective board composition

Regular director elections give boards the opportunity to adjust their composition in an orderly way to reflect the developments of the company's strategy and the market environment. In our view, it is beneficial for new directors to be brought onto the board periodically to refresh the group's thinking while supporting both continuity and appropriate succession planning. We consider the average overall tenure of the board, and seek a balance between the knowledge and experience of longer-serving directors and the fresh perspectives of directors who joined more recently.

We encourage companies to keep under regular review the effectiveness of their board (including their size), and assess directors nominated for election in the context of the composition of the board as a whole. This assessment should consider a number of factors, including each director's independence and time commitments, as well as the diversity and relevance of director experiences and skillsets, and how these factors may contribute to the performance of the company.

We believe that directors are in the best position to assess the composition and optimal size of the board but we would be concerned if a board seemed too small to have an appropriate balance of directors or too large to be effective.

We expect the board to establish a robust process to evaluate the performance of the board as a whole and the contributions of each director. BIS believes that annual performance reviews of directors and the board contribute to a more efficiently functioning board.

Majority of independent directors

The board of a listed company should have a majority of independent directors unless an acceptable explanation is provided. Where a board does not comprise a majority of independent directors they should take particular care with their explanation for not achieving a majority given the importance to shareholders of having an effective and objective board.

In cases where the board does not comprise a majority of independent directors, BIS may consider voting against the re-election of a non-independent director, and/or the chair of the nomination committee, particularly if other significant corporate governance issues exist.

Independent chair

The chair should be independent. Where the chair is not considered to be independent it is our view that a cogent explanation be provided by the company and the independent directors to appoint one of their own as the lead independent director. We believe that the responsibilities of the lead independent director should include but are not limited to:

- Presiding at all meetings of the board at which the chair is not present, including sessions of the independent directors;
- Calling meetings of the independent directors;
- Serve as principal liaison on board-wide issues between the independent directors and the chair;

- Approving the quality, quantity, appropriateness and timeliness of information sent to the board as well as approving meeting agenda items;
- Facilitating the board's approval of the number and frequency of board meetings, as well as meeting schedules to assure that there is sufficient time for discussion of all agenda items;
- Retain outside advisors and consultants who report directly to the board of directors on board-wide issues;
- Ensuring they be available, if requested by shareholders, when appropriate, for consultation and direct communication;
- They should agree to and document the split roles between a non-independent chair, the CEO and the lead independent director and have this published on the company's website so that shareholders can understand the break out of responsibilities

Where a company does not have an independent chair, a lead independent director has not been appointed and a cogent explanation has not been provided, BIS may consider voting against the re-election of the chair particularly if other significant corporate governance issues exist.

Assessment of independence

In our view, there should be a sufficient number of independent directors, free from conflicts of interest or undue influence from connected parties, to ensure objectivity in the decision-making of the board and its ability to oversee management.

An independent director is a non-executive director and generally should:

- Have no familial or material business or financial or perceived relationship with the company, their executives or other board members (except for board service and annual fees paid for that service) which may interfere with the non-executive director's ability to act in the best interests of the company;
- Not have been an employee of the company within the last three years. Further, a non-executive director who has been an employee of the company as a senior executive is not considered to be independent unless there has been a break of at least three years between leaving any employment and becoming a non-executive director of the company;
- Not have been within the last three years a principal or employee of a professional advisor to the company or a related company;
- Not have participated in any equity based remuneration that involves vesting based on performance of the company or continuing service as a non-executive director;
- Not control more than 5% or more of the company's voting securities or be an executive or other representative of a company that owns or controls more than 5% or more of the company's voting securities. Where a non-executive director was a representative of such a former substantial security holder but remains on the board after the former substantial security holder disposes of the holding, and in the absence of any other relationship between the company and the non-executive director or the former substantial security holder, we will consider reclassifying the non-executive director as independent
- Be classified by the company as independent;

- Not hold cross-directorships or significant links with other directors through the involvement in other companies or bodies;
- Not have received fees or income for services to the company, except for board service and annual fees paid for that service, and which are significant in relation to the non-executive director fees received by the director;
- Not be a partner/director or senior executive of a professional services firm such as an accounting firm, consulting firm, law firm or investment bank where the firm is paid for services and not the individual directly;
- Not be a material supplier or customer of the company or another group member or an officer of or otherwise associated directly or indirectly with a material supplier or customer:
- Have no material contractual relationship with the company or another group member other than as a director of the company;
- Be free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act in the best interests of the company

Conflicts of interest

BIS thinks that non-executive directors should not have any conflicts of interest. Independent directors, their close family or their associated companies that do significant business with the company might face situations where they have to choose between their own interests and those of the shareholders that the non-executive directors speak for. BIS may vote against the re-election of a director where a potential conflict of interest could pose a serious and avoidable risk to shareholders.

All potential conflicts of interest should be declared prior to appointment and at each board meeting in relation to any specific agenda item.

Length of service

BIS believes that shareholders are best served when there is orderly renewal of the board as this should result in directors with accumulated experience while at the same time introducing fresh thinking and experience to the board. An effective renewal process will ensure that non-executive directors do not serve for such length of time that their independence may be impaired.

BIS will review the status of independent directors where they have been on the board in excess of 12 years. We will consider voting against the re-election of a non-executive director who has served for a period in excess of 12 years particularly if there are other concerns regarding the corporate governance of the company.

Board size

While BIS believes the board is normally best placed to determine the size of the board, in our view, board size should reflect the size and complexity of the company. We do however believe that a minimum board size of five is necessary for an ASX 200 company to ensure a good mix of skills and diversity amongst the independent directors.

BIS also believes that shareholders should have the ability to nominate directors to the board and, should they receive a majority of votes, be able to take their position on the board. BIS, therefore, does not

support changes to constitutions which are likely to restrict the ability of shareholders to nominate for or to be elected to, the board. Accordingly, BIS may consider voting against a change to a constitution that places a cap on the number of directors on the board.

Nomination procedure

The company should have a formal and transparent procedure for the appointment and re-appointment of directors. The board should adopt a procedure that can ensure a diverse range of candidates to be considered. Such procedure may involve the engagement of external professional search firms.

When nominating new directors to the board, we look to companies to provide sufficient information on the individual candidates in order for shareholders to assess the suitability of an individual nominee and the overall board composition. These disclosures should give a clear sense of how the collective experience and expertise of the board aligns with the company's long-term strategy and business model. Highly qualified, engaged directors with professional characteristics relevant to a company's business enhance the ability of the board to add value and be the voice of shareholders in board discussions. In our view, a strong board provides a competitive advantage to a company, providing valuable oversight and contributing to the most important management decisions that support long-term financial performance.

In our view, disclosures should demonstrate how diversity is accounted for within the proposed board composition, including professional characteristics, such as a director's relevant industry experience, specialist areas of expertise and geographic location; as well as demographic characteristics such as gender, race/ethnicity, and age.

The board should disclose in the annual report and/or website the required mix and diversity of skills, experience and other qualities, including core industry competencies that each director brings to the board, the process by which candidates are identified and selected including whether professional search firms have been engaged to identify and/or assess candidates, the procedures used to ensure a diverse range of candidates is considered and factors taken into account in the selection process. The annual corporate governance statement should also disclose the process adopted by the board to evaluate the performance of each director. BIS believes that annual performance reviews of the non-executive directors, including the chair, contribute to a more efficiently functioning board.

Ethical conduct and decision making

Companies should have a code of conduct for directors, executives and other employees with such policy disclosed on the company's website. The disclosure should explain how the policy is communicated to all levels of employees to ensure its effectiveness.

Diversity

We are interested in diversity in the board room. We see it as a means to promoting diversity of thought and avoiding 'group think' in the board's advising of and overseeing 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 a director's relevant industry experience, specialist areas of expertise and geographic location; as well as demographic characteristics such as gender, race/ethnicity, and age. While the definition of diversity is broad, a key area that requires focus relates to equality in the workplace.

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 nominating directors from diverse

backgrounds which helps ensure boards can more effectively understand the company's customers, employees and communities. Self-identified board demographic diversity can usefully be disclosed in aggregate, consistent with local law. We encourage boards to 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. We take a case-by-case approach and consider the size of the board in our evaluation of overall composition and diversity. Business model, strategy, location, and company size may also impact our analysis of board diversity. We acknowledge that these factors may also play into the various elements of diversity that a board may attract. We look for disclosures from companies to help us understand their approach and do not prescribe any particular board composition.

In Australia, we believe that boards should aspire to at least 30% diversity of membership² and we encourage large companies, such as those in the ASX 200, to lead in achieving this standard. In light of market developments³, an informative indicator of diversity for such companies is having at least two women and a director who identifies as a member of an underrepresented group⁴. We recognize that companies with smaller market capitalizations and in certain sectors may face more challenges in pursuing diversity. Among these smaller companies, we look for the presence of diversity and take into consideration the steps that companies are taking to ensure diversity on their board.

When a company has a diversity policy, in addition to the requirements set out in ASX Corporate Governance Principles and Recommendations we look to boards to disclose:

- The governance structure;
- The percentage of women and underrepresented groups on the board and whether the board sets any measurable targets for increasing these numbers on the board;
- The percentage of women and underrepresented groups in senior executive roles and whether the board sets any measurable targets for increasing diversity at senior management;
- Why the board believes the diversity policy is beneficial to the company, that is, an articulation of a compelling business case for diversity in the entity as part of the business strategy, and whether there are internal procedures to review the effectiveness of the diversity policy;
- Initiatives the company has in place (if any) to address diversity in senior executive positions and whether those initiatives are measured and evaluated; and
- Any work undertaken or policies on pay equity

To the extent that we believe a company has not adequately accounted for diversity in their board composition, we may vote against the nomination committee members or, where doing so could further undermine the board's diversity, against other appropriate board members (including the chair of the board).

² For a discussion on the different impacts of diversity see: McKinsey, "Diversity Wins: How Inclusion Matters", May 2022; Harvard Business Review, "Diverse Teams Feel Less Comfortable – and That's Why They Perform Better", September 2016; "Do Diverse Directors Influence DEI Outcomes", September 2022

³ Spierings, Merel "Corporate Director Diversity Can Contribute to Board Effectiveness" Harvard Law School Forum on Corporate Governance (Nov. 2023) <https://corpgov.law.harvard.edu/2023/11/24/us-public-company-board-diversity-in-2023/>

⁴ Including, but not limited to, individuals who identify as as LGBTQ+; individuals who identify as underrepresented based on national, Indigenous, religious, or cultural identity; individuals with disabilities; and veterans.

External board mandates

The role of a director is becoming increasingly demanding and therefore requires appropriate time to commit and engage effectively on board and committee matters. It is important that every director has the capacity to meet all their responsibilities – including when there are unforeseen events – and therefore, they should not take on an excessive number of roles that would impair their ability to fulfill their duties. In BIS' view it is the responsibility of the chair to ensure that all the directors are able to commit an appropriate amount of time to board and committee matters, and are participating actively and contributing to the workload of the board on a continuing basis as well as through a formal evaluation.

BIS may vote against the re-election of a director where there is a risk the director may be over committed in respect of membership of other listed boards.

Non-executive directors who are full- time executives of other major listed companies

BIS has concerns when a full-time CEO accepts a non-executive role at an unrelated company. Full time CEOs are expected to work for their board and shareholders with full focus. As discussed above, non-executive directors need to have spare capacity when a major transaction occurs. BIS is concerned that where a full-time CEO has a non-executive director role there is a risk that their ability to fully serve in either role could be compromised. BIS may consider voting against a non-executive director who is also a full time CEO of a major listed company.

External/nominated board candidates

In general BIS supports the recommendations of the board regarding the election of directors. BIS does not ordinarily support individuals who have nominated themselves for the board unless they have the support of the board. In particular, BIS would not support an external candidate who has a restricted agenda as directors should act on behalf of all shareholders and deal with all issues that may arise. However, where we believe the addition of an external candidate to the board will add to the skill set of the board and is in the best interests of shareholders, we will support them.

Share ownership by non-executive directors

BIS believes listed companies should have a clear and disclosed policy on non-executive director share ownership. We believe that non-executive directors should have some "skin in the game" to align their interests with those of public shareholders. Such policies should require non-executive directors, within a reasonable amount of time after joining the board, to accumulate a meaningful investment.

Where a non-executive director continues serving on a board and fails to accumulate a meaningful investment and other significant corporate governance issues exist, BIS may vote against the individual.

Disclosure of equity subject to margin calls

Directors and senior executives should be able to manage their assets in the same way that other shareholders can. Margin calls can have a significant impact on a company's share price when the call is made on a significant shareholder.

Where a director's investment, which is subject to margin calls, exceeds 2% of issued capital, the number of shares subject to margin calls and the margin call prices should be disclosed.

Where a company fails to disclose a material holding of a director which has been subject to margin calls and margin calls are subsequently made, resulting in a negative impact on the share price, BIS will consider voting against the director concerned and/or the chair for failing to disclose such material information to shareholders.

Meeting attendance

Directors should ensure that they attend all board and committee meetings. BIS will consider voting against a director who fails to attend fewer than 75% of board and committee meetings for their past term as a director, unless compelling reasons for the absenteeism have been disclosed. However, BIS will disregard attendance in the first year following appointment as the director may have had commitments made prior to joining the board.

Committees

Appropriately structured board committees provide an efficient mechanism which allows the board to focus on key issues such as audit, board renewal, remuneration, risk and any other issues deemed important. Board committees can also provide an important role in dealing with conflicts of interest.

All companies should establish an audit committee. For companies within the S&P/ASX 200, at a minimum the establishment of separate committees should focus on the issues of nomination and remuneration. For companies outside the S&P/ASX 200, it is acceptable to have the roles of nomination and remuneration combined within the one committee.

All committees should have written terms of reference which should, inter alia, clearly set out the committee's roles and responsibilities, composition, structure, membership requirements and the procedures for inviting non-committee members to attend meetings. All committee terms of reference should be available to investors on the company's website.

All committees should be given the power and resources to meet their obligations under the terms of reference. This will include the right of access to management and the ability to select service providers and advisors at a reasonable cost to the company.

The chair of a committee should be independent. It is preferable for the chair of the board not to chair board committees as this may lead to a concentration of power in a single director.

For S&P/ASX 200 companies each committee should have at least three members. For companies outside the S&P/ASX 200, depending on the size and complexity of the company, a committee of two may be appropriate.

Audit Committee

The audit committee should comprise solely independent directors, with the appropriate mix of skills, including financial skills, and experience for its role.

The terms of reference for the audit committee should have appropriate powers to determine the scope of the audit process, review the effectiveness of the external auditor, assess, review and authorise non-audit

work, have access to the internal audit process and to make recommendations regarding the appointment and removal of the external auditor.

Where a risk committee has been established in addition to an audit committee, clear disclosure needs to be made on the responsibilities of each committee and how they interact.

Where the audit committee is not comprised solely of independent directors, BIS will consider voting against the re-election of the chair of the audit committee or the non-independent member of the audit committee particularly if there are other corporate governance issues.

A demonstrably independent audit is essential for investor confidence. Where non-audit fees exceed the level of audit fees in any year, BIS will review the nature of the non-audit fees and any explanation provided by the company for the significant level of non-audit fees. Full details of all non-audit work should be disclosed. If there is a lack of explanation of the non-audit services or we believe there is a risk that the type of non-audit services provided may impair the independence of the audit, we will consider voting against the re-election of the chair of the audit committee if they are seeking re-election.

Other circumstances where BIS may consider voting against the re-election of the chair of the audit committee include but are not limited to:

- If within the last three years accounting fraud has occurred in the company;
- If within the last three years the financial statements have been restated due to negligence or fraud;
- If the company repeatedly fails to file their financial reports in a timely fashion

Nomination Committee

The nomination committee should comprise a majority of independent directors and have an independent chair. The responsibilities of the nomination committee should include a review of and recommendations to the board on issues including but not limited to:

- Assessing the competencies of all directors to ensure the board has an appropriate range of skills and expertise;
- Implementing a plan for identifying, assessing and enhancing director competencies;
- Reviewing, at least annually, the succession plans of the board;
- Ensuring the size and composition of the board is conducive to making appropriate decisions;
- Reviewing the time required by each non-executive director to undertake their role and whether non-executive directors are meeting that requirement;
- Ensuring a process for the evaluation of the performance of the board, its committees and directors and reporting the process to shareholders in the annual corporate governance statement;
- The appointment and re-election of directors;
- Maintaining a watching brief on the development of management and potential for senior executive succession planning from the level below senior executive

The board should have a formal and transparent process for the selection, appointment and re-appointment of directors to the board. Disclosure of the process helps promote BIS' understanding of and

confidence in that process. The process should be disclosed in the annual corporate governance statement and include an explanation of the mix of skills and diversity the board is looking for.

Circumstances where BIS may consider voting against the re-election of the chair and/or members of the nomination committee include but are not limited to:

- If the composition of the board continues to reflect poor succession planning, renewal or other composition deficiency;
- If the committee approved the nomination or re-election of an individual who has demonstrated a lack of integrity or inability to represent the interests of shareholders or who has an actual or perceived significant conflict of interest that poses a risk to shareholders;
- If the committee fails to hold a meeting in the reporting year.

Remuneration Committee

The remuneration committee for an S&P/ASX 200 company should comprise solely non-executive directors. In BIS' view S&P/ASX 200 companies should not have executives as members as there is the potential for, or perception of, a conflict of interest if executive directors are involved in board decisions on their remuneration packages.

For companies outside the S&P/ASX 200 index, while our preference is for the remuneration committee to comprise solely non-executive directors, we understand that due to the size of the company and the development phase they may be in, the presence of the CEO on the committee may be acceptable. In such cases disclosure of the protocols should be in place to ensure the CEO is not involved in determining their remuneration arrangements.

The responsibilities of the remuneration committee should include a review of and recommendations to the board on issues including but not limited to:

- The company's remuneration, recruitment, retention and termination policies for senior executives;
- Executive director and senior executive fixed and performance based remuneration to ensure that executives are motivated to pursue the long-term growth and success of the company;
- Superannuation arrangements;
- The remuneration framework for non-executive directors;
- Direct consultation with institutional shareholders, i.e. not through the use of consultants or management.

Circumstances where BIS may consider voting against the re-election of the chair and/or members of the remuneration committee include but are not limited to:

- If the composition of the remuneration committee fails to meet these guidelines;
- If BIS has continuing concerns regarding the structure of remuneration and has raised these concerns with the company and the company continues the egregious practices;
- If the committee fails to hold a meeting in the reporting year

Risk management committee

BIS believes that a sound framework of risk oversight, management and control is fundamental to the long-term sustainable growth of shareholder value. The board is responsible for both establishing and overseeing the risk management framework of the company.

Risk oversight

Companies should have an established process for identifying, monitoring, and managing key risks. Independent directors 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.

Accounts, statutory reports, auditors and audit-related issues

BIS 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. We hold the members of the audit committee or equivalent responsible for overseeing the management of the audit function. Audit committees or equivalent should have clearly articulated charters that set out the committee's responsibilities and have a rotation plan in place that allows for a periodic refreshment of the committee membership to introduce fresh perspectives to audit oversight. We recognize that audit committees will rely on management, internal audit and the independent auditor in fulfilling their responsibilities but look to committee members to demonstrate they have relevant expertise to monitor and oversee the audit process and related activities.

We take particular note of explained changes in reporting methodology, cases involving significant financial restatements or ad hoc notifications of material financial weakness. In this respect, audit committees should provide timely disclosure on the remediation of Key and Critical Audit Matters identified either by the external auditor or internal audit function.

The integrity of financial statements depends on the auditor being free of any impediments to being an effective check on management. To that end, it is important that auditors are, and are seen to be, independent. Where an audit firm provides services to the company in addition to the audit, the fees earned should be disclosed and explained. Audit committees should have in place a procedure for assessing annually the independence of the auditor and the quality of the external audit process.

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 or risk committee should periodically review the company's risk assessment and risk management policies and the significant risks and exposures identified by management, the internal auditors or the independent

auditors and management's steps to address them. In the absence of detailed disclosures, we may reasonably conclude that companies are not adequately managing risk.

Accounts

Australian listed companies are not required to put their annual accounts and reports to shareholders for a vote. However, some companies choose to submit their annual accounts and reports for a shareholder vote. In these cases and where there is an unqualified auditors' report, BIS will support such proposals.

Change of audit firm

Australian law does not require the annual election of auditors. If a listed company wishes to change their audit firm, the incumbent firm must seek consent from the regulator, the Australian Securities and Investments Commission (ASIC) and is required to state the following:

- There are no disputes with company management connected with the auditor ceasing to hold office;
- There are no circumstances connected with the auditor ceasing to hold office which should be brought to ASIC's attention

When the board of an Australian listed company appoints a new audit firm, shareholders have the opportunity to endorse, or otherwise, the new appointment at the annual general meeting, following the change.

Newly appointed audit firms should be well qualified to undertake the task on behalf of shareholders and also be free from conflicts of interest.

Capital structure, mergers, asset sales and other special transactions

Approvals and ratification of placements

ASX Listing Rule 7 limits listed companies from issuing more than 15% of equity on a non-pro rata basis in a 12 month period without shareholder approval. Companies can seek shareholder approval to exceed the 15% limit. BIS will consider each request to issue more than 15% of equity in a 12 month period on a case by case basis.

When requesting shareholder approval to issue more than 15% of equity on a non-pro rata basis companies should disclose:

- To whom it is proposed to issue the equity;
- Details of any discounts to be offered and the rationale behind any proposed discount;
- The basis of determining the issue price;
- How the funds raised will be used;
- Alternatives considered by the company;
- Impact, if any on change of control;

- Conversion rates on equity (if applicable)

Where the above information is not forthcoming and/or the approval may result in unnecessary dilution for a majority of shareholders, BIS will consider voting against the approval request.

Companies can also request the ratification of previous share placements in order for that placement not to count towards their annual 15% allocation. If on behalf of any funds BlackRock has participated in a placement that is subject to ratification by shareholders, then pursuant to Listing Rule 7 it is unable to vote on the proposal on behalf of those funds. BIS will register an abstention on behalf of any funds which participated in the particular placement.

Where BlackRock has not participated on behalf of any funds in a placement which shareholders are being asked to ratify for the purposes of Listing Rule 7, we encourage companies to disclose the following information:

- To whom the equity was issued;
- Details of any discounts to be offered and the rationale behind any proposed discount;
- The basis of determining the issue price;
- How the funds raised will be used;
- Alternatives considered by the company;
- Impact, if any on change of control;
- Conversion rates on equity (if applicable)

Where the above information is not forthcoming, BIS will consider voting against the ratification request.

Listing Rule 7A

For eligible companies seeking shareholder approval for the issuance of additional capital pursuant to Listing Rule 7A, we encourage companies to disclose the following information, in addition to the requirements of Listing Rule 7A:

- The nature of proposed recipients i.e., sophisticated investors, cornerstone investor, strategic alliance;
- Details of any discounts to be offered and the rationale behind any proposed discount;
- The basis of determining the issue price;
- Alternative capital raising methods considered by the company;
- Conversion rates on equity (if applicable)

Mergers, asset sales, and other special transactions

In reviewing merger and asset sale proposals, BIS' primary concern is the long-term economic interests of our clients as shareholders. While these proposals vary widely in scope and substance, we closely examine certain salient features in our analyses. There should be clear strategic, operational, and/or financial rationale for the combination. For mergers and asset sales, we assess the degree to which the

proposed transaction represents a premium to the company's trading price. In order to filter out the effects of pre-merger news leaks on the parties' share prices, we consider a share price from multiple time periods prior to the date of the merger announcement. In most cases, business combinations should provide a premium. We may consider comparable transaction analyses provided by the parties' financial advisors and our own valuation assessments. For companies facing insolvency or bankruptcy, a premium may not apply. Where the transaction involves related parties the board should establish a committee comprised of independent directors to review the transaction and report to shareholders. There should be a favourable business reason for the combination.

Unanimous board approval and arm's-length negotiations are preferred. We will consider whether the transaction involves a dissenting board or does not appear to be the result of an arm's-length bidding process. We may also consider whether executive and/or board members' financial interests in a given transaction appear likely to affect their ability to place shareholders' interests before their own.

Remuneration and benefits

The key purpose of remuneration is to reward, attract and retain competent directors, executives and other staff who are fundamental to the long-term sustainable growth of shareholder value, with reward for executives contingent at least in part on controllable outcomes that add value. BIS encourages a company's board of directors to put in place a remuneration structure that incentivizes and rewards executives appropriately and is linked with performance that aligns with shareholder interests, particularly the generation of sustainable long-term value. In our view, the remuneration committee should carefully consider the specific circumstances of the company and the key individuals the board is trying to incentivize. We encourage companies to ensure that their remuneration plans incorporate appropriate and rigorous performance metrics consistent with corporate strategy and market practice. We use third party research, in addition to our own analysis, to evaluate existing and proposed remuneration structures. We hold members of the remuneration committee or equivalent board members accountable for poor remuneration practices or structures.

When assessing remuneration policies and practices of ASX listed companies, BIS is looking for a cogent explanation for the policies used and in respect of executive remuneration in particular, a clear link to the board's stated strategy.

BIS believes that there should be a clear link between variable pay and company performance that drives value creation. We are not supportive of one-off or special bonuses unrelated to company or individual performance. Where discretion has been used by the remuneration committee, we encourage disclosure relating to how and why the discretion was used, and further, how the adjusted outcome is aligned with the interests of shareholders. We acknowledge that the use of peer group evaluation by remuneration committees can help ensure competitive pay; however, we are concerned when the rationale for increases in total compensation at a company is solely based on peer benchmarking rather than a rigorous measure of outperformance.

We support incentive plans that foster the sustainable achievement of results consistent with the company's long-term strategic initiatives. The vesting timeframes associated with incentive plans should facilitate a focus on long-term value creation. We believe consideration should be given to building claw back/malus provisions into incentive plans such that executives would be required to forgo rewards when they are not justified by actual performance and/or when remuneration was based on faulty financial reporting or deceptive business practices. We also favor recoupment from any senior executive whose behavior caused material financial harm to shareholders, material reputational risk to the company, or

resulted in a criminal investigation, even if such actions did not ultimately result in a material restatement of past results. Remuneration committees should guard against contractual arrangements that would entitle executives to material remuneration for early termination of their contract. Finally, pension contributions and other deferred remuneration arrangements should be reasonable in light of market practice.

Non-executive director remuneration

The role of the non-executive director is to monitor the strategy, performance and remuneration of the executives and to protect the interests of shareholders in the long-term. Non-executive directors should receive sufficient remuneration to attract and retain suitably qualified non-executive directors and encourage them to undertake their role diligently.

The executive arm and any major shareholder should not have any undue influence over the remuneration of non-executive directors.

Structure of non-executive director remuneration

Non-executive director remuneration should be structured in such a way that it aligns the interests of the directors with those of the shareholders they represent. The structure of non-executive director remuneration should not provide any disincentive to resign from the board should an issue of conflict or any other issue that would impair a director's independence arise.

Non-executive directors should receive a fixed annual fee, including additional fixed fees for board committee membership for their services. BIS supports non-executive directors entering into "salary sacrifice" arrangements whereby a portion of their fees is received by way of fully paid shares purchased on market. As noted above, we believe that non-executive directors should have a meaningful shareholding in the company. Such arrangements assist in aligning the interests of non-executive directors with those of shareholders.

Cap on fees paid to non-executive directors

The Corporations Act requires shareholders to approve a cap on total cash fees paid to non-executive directors. When directors want to increase the fee cap, shareholder approval must be sought.

BIS considers requests for an increase in the fee cap on a case by case basis. In our view, the explanatory notes to the meeting should clearly explain why the increase is being sought, the proposed level of non-executive director fees, including additional amounts for service on committees and any proposed changes to the size of the board to be disclosed. Where a company has failed to provide this information, BIS will consider voting against the requested increase in fee cap.

Option grants and performance based remuneration to non-executive directors

BIS does not generally support the granting of options to non-executive directors as such securities do not have the same risk profile as the ordinary shares held by ordinary shareholders and therefore may not align the interests of directors with those of the shareholders they represent.

Non-executive directors should not receive performance based remuneration as to do so would more closely align their interests with those of management, whose performance and remuneration they are intended to monitor on behalf of shareholders.

Where options or performance based remuneration has been granted to non-executive directors, BIS will consider voting against any such proposals and the re-election of the chair of the remuneration committee who must take responsibility for such poor remuneration structures.

For smaller companies in a development/exploration phase such as biotech or mining companies, which typically have high cash burn rates and little or no income from operations, BIS will support the grant of options or share rights to non-executive directors where the options are issued in lieu of cash fees (as a cash saving measure), there are no performance conditions and full vesting occurs within 12 months of grant date.

Retirement benefits

Non-executive directors should not receive any form of service contingent retirement benefit apart from statutory superannuation remuneration. Such remuneration merely rewards a non-executive director for long service and may inhibit a non-executive director from resigning from the board if an issue of conflict or any other issue that would impair a director's independence arises.

Hedging of securities

Given the nature of the role of the non-executive director and his/her access to information, in BIS' view it is inappropriate for non-executive directors to enter into hedging arrangements relating to their direct and indirect shareholdings.

As discussed above, in certain circumstances BIS believes directors should disclose shares subject to margin calls.

Executive remuneration

Given the uniqueness of each Australian listed company, and the numerous industries represented on the ASX, we do not believe there is a "one size fits all" approach to the structure of executive remuneration. However, there are aspects of executive remuneration that are considered to be part of an evolving framework that we typically see. Where there is a significant departure from this framework, a cogent explanation is required and will be taken into account by BIS when assessing executive remuneration issues.

Executive remuneration contracts

Disclosure to the ASX

Upon appointment of an executive director or where there have been material changes to the terms of an executive director's contract of employment, BIS encourages disclosure of the key features of contracts to the ASX. Such disclosure should include, but is not limited to the following features of the contract of employment:

- Period of the contract;
- Quantum of fixed remuneration;

- Structure of any performance based remuneration;
- Notice period and termination provisions;
- Sign-on remuneration;
- Retention provisions;
- Post-employment restrictions on trade and consideration paid;
- Post-employment consulting or advisory relationships;
- Post-employment vesting of payments granted during employment;
- Contractual provisions for conflicts of interest, including acceptance of payments from shareholders, employees, suppliers, customers and others with a pecuniary interest in company activities;
- Change on control provision and the impact on variable remuneration;
- Any other material issues which will assist shareholders to fully understand the terms

Length of contracts

While it is reasonable for a contract to have an initial maximum term of up to three years, in our view contracts should be renewed on a one year rolling contract basis. Such arrangements should minimize post-employment payments by the company to executives.

Where longer term contracts are entered into, or contracts are renewed for periods in excess of one year, in our view, the reason for such approvals should be explained and justified by the remuneration committee.

Change of control provisions

Any change of control provisions that affect the remuneration arrangements of any key management personnel (KMP) should be disclosed in the remuneration report.

BIS believes that the remuneration committee should have discretion in relation to change of control provisions as the circumstances that may result in a change of control are varied and cannot be determined at the time contracts are entered into.

Elements of executive remuneration

Executive remuneration will generally, but not necessarily comprise some or all of the following elements:

- Fixed remuneration (not subject to performance conditions)
 - Base remuneration
 - Superannuation contributions
 - Non-monetary benefits
 - Non-performance contingent equity
 - Leave entitlements
 - Sign-on payments
 - Retention provisions

- Termination provisions
- Performance based remuneration (subject to performance conditions)
 - Short term incentive (STI)
 - Long-term incentive (LTI)

Fixed remuneration

Fixed remuneration should reflect the responsibilities of the executive role taking into account, inter alia, business and geographical complexity. When assessing the appropriateness of the level of fixed remuneration, BIS will use the median of the company's market cap peer group as a guide. Where a CEO's fixed remuneration is significantly above the median of the company's market cap peer group, companies should provide a cogent explanation in the remuneration report. Peer companies used for comparison and remuneration setting should be disclosed, as should the remuneration positioning relative to the peer group. Changes for both the peer group and fixed remuneration from prior years should be disclosed with rationale provided. Companies should select peers that are broadly comparable to the company in question, based on objective criteria that are directly relevant to setting competitive remuneration; we evaluate peer group selection based on factors including, but not limited to, business size, relevance, complexity, risk profile, and/or geography.

In case of a significant increase in fixed remuneration year-on-year that appears to be out of line with the rest of the workforce, the company should provide a strong supporting rationale. Large increases should not be justified principally by benchmarking but should progress in pace with the evolution of the scope of the role and its complexity. If justified by additional complexity, companies should provide a detailed explanation of how the role has substantially changed. We do not see an increase in market capitalization of the company as an appropriate proxy for the complexity of the role or an appropriate justification for an increase in salary.

Boards should consider the timing of any pay increase relative to the current performance of the company. Especially in the case of a merger or acquisition, boards should wait a number of years before increasing remuneration to ensure that the executives are delivering sustained performance.

Performance based remuneration

Performance based remuneration is forming an increasingly significant part of executive remuneration. Performance can be measured over periods as short as one year (short term incentives) or longer (long-term incentives). How the remuneration committee has determined the balance between short and long-term performance based pay should be clearly disclosed in the remuneration report.

Performance metrics comprise both financial and non-financial measures. The remuneration report should clearly disclose the rationale for each performance metric used, the rationale behind the balance between financial and non-financial metrics and how such metrics incentivize management to drive long-term sustainable performance of the company.

Short term incentives

STIs should be linked to performance. Disclosure in the remuneration report should provide shareholders with an understanding of the maximum amount of STI award an executive can earn in a given year. For example, this may be expressed as a percentage of fixed remuneration.

The remuneration report should clearly state the performance measures and the hurdles that are required to be met for an STI to vest. BIS does; however, accept that in the case of STIs, performance measures may involve commercially sensitive information. In such cases, BIS will accept non-disclosure of future performance targets, however, companies should provide retrospective disclosure of the nature of the performance measure, the performance hurdle met and the percentage of the award that vested on an annual basis.

The remuneration report should also explain why each STI performance measure was selected and the relationship of each performance measure to the company's stated short term strategy.

The remuneration report should clearly disclose the performance measures that were met, the performance hurdle that was achieved and the amount of remuneration rewarded in respect of each performance measure for each KMP.

BIS also encourages companies to defer a significant portion of an annual performance based award into equity which may vest over a period of around three years from grant date. Deferring a significant portion of an STI will encourage management to think beyond the initial 12 month performance period.

Disclosures should indicate if any discretion has been applied, any change in policy from prior years and any exceptions to policy in the reporting period and reasons for such departure.

BIS is always concerned where executives appear to have been rewarded via an STI when short term performance has been prima facie poor. In such situations companies should provide a cogent explanation regarding why management appears to have been rewarded for poor performance. BIS may consider voting against a remuneration report where there is a significant mismatch between performance and executive remuneration rewards.

Long-term Incentives: Link between long-term remuneration structure and company strategy

Companies should provide a clear link between the structure of a company's long-term incentive plans and the company's strategy. The link between executive remuneration structure and strategy should relate to the performance period and performance measures used. Explanations should address risk management.

Annual grants of awards

It is preferable for long-term incentive awards to be made in annual grants rather than in an ad hoc manner. Annual grants allow the remuneration committee to use its discretion to amend the terms of grants as circumstances change. Exceptions may be made in start-up or transformational situations where specific and highly value adding milestones can be identified.

Board and remuneration committee discretion

When the terms for an LTI covering a period of between three and five years are set it is not possible to be able to predict all circumstances which may impact the final outcome of the plan. Therefore, BIS believes the board should have discretion over the final outcome of any plan. Where discretion has been used by the board or remuneration committee that has impacted the outcome of a plan, companies should disclose why and how the discretion was used.

Performance period

The performance period chosen should be linked to the type of business and overall long-term strategy. For example, a company involved in the construction/operation of major infrastructure assets would be expected to have a performance period of not less than three years and preferably up to five years. For companies operating in the retail sector, where fast turnover of stock is essential, BIS accepts a performance period of less than three years. Where a performance period for a long-term incentive is less than three years, a company should provide a clear explanation for the short performance period and explain how this is linked to overall long-term strategy.

For the CEO and direct reports, in our view, there should be a sufficient subsequent holding period beyond the vesting of awards to ensure the long-term focus by management. Such a holding period applies post departure of such executives.

Shareholding requirements

BIS believes that executives should build over time a meaningful holding in the company's shares by retaining vested equities. Executives of an ASX200 company should normally hold one times salary in vested shares and the CEO to hold two times salary.

Performance measures

There are many types of performance measures that can be used in a long-term incentive plan. It is our view that there should be a relationship between the performance measures chosen, the type of industry in which the company operates, the key value drivers of the business and overall long-term strategy. The remuneration report or explanatory notes should contain clear rationale regarding why the particular performance measures were chosen and how they relate to long-term strategy and key value drivers of the business.

Performance hurdle and calibration

The minimum performance hurdle that is required to be achieved before performance based awards vest should involve above median performance. Maximum awards should only vest when there has been exceptional performance. Where accounting measures such as earnings per share or return on equity have been used, the remuneration report should provide a clear explanation of the hurdle range that has been selected and why the range represents exceptional performance.

BIS believes that the use of cliff vesting (which involves a significant portion of awards vesting at a single measurement point) should be avoided unless a cogent explanation for this type of structure can be provided. In BIS' view awards should vest on a sliding scale to ensure management is not focused on a single performance hurdle.

Multiple performance measures

BIS believes that the use of multiple performance measures in a long-term incentive plan will avoid focusing management on a single performance measure.

Remuneration vehicle

The remuneration vehicle is the form in which remuneration is delivered to the executive. For example it may be in cash or salary sacrifice, a type of option or other equity based vehicle.

Risk differentials of remuneration vehicles

Remuneration vehicles have differing risk profiles for the plan participant. For example, remuneration to be received in cash has little risk when compared with options granted with an exercise price equal to the market price of the security at grant date.

The use of remuneration vehicles such as options provides leveraged returns and accordingly, may increase management's appetite for risk beyond that expected by shareholders. Remuneration committees should ensure that the use of a particular remuneration vehicle will not result in excessive risk taking by management and should be aligned with the risk profile of the particular company and expectations of shareholders.

Options

Where options are used as the remuneration vehicle, companies should provide comprehensive disclosure regarding the rationale for setting the exercise price. Any proposal relating to option grants should provide full details of the valuation of the grant at the date of grant.

Index linked options

Index linked options link the exercise price to the movement of a particular index and avoid executives achieving windfall gains due to market movements and also can maintain an incentive when the overall market has a significant negative correction. Index linked options are suitable only where the company has a suitable peer group of companies in order to establish an appropriate index.

Zero exercise price options (Zepo's)

Changes in Australian taxation legislation have made the use of Zepo's more attractive for executive remuneration plans. Zepo's have lower risk than traditional market priced options.

Disclosure

The remuneration report should provide a sound explanation for the remuneration vehicle selected and how it is consistent with strategy.

Number of securities to be granted as part of performance based remuneration

Companies should use a consistent approach when determining the number of securities to be granted as part of an LTI. BIS is supportive of companies using a fair value that excludes any discount for vesting probability. This approach provides shareholders with a guide as to the maximum value of the grant based on the share price at grant date.

When performance based securities have been granted under an LTIP during the reporting year, the remuneration report should disclose the maximum number of securities granted to each KMP's (based on achieving maximum performance) as well as the number of securities to be granted when threshold performance is achieved.

BIS also prefers performance based equity grants to KMP's to be valued and granted immediately after the AGM as information regarding the prior year results and also released as part of the AGM should be embedded in the share price immediately after the AGM.

BIS does not support the use of valuing securities based on accounting standard AASB2. This is due to the fact the accounting standard does not value securities subject to different performance measures on a consistent basis.

Where the methodology for valuing securities for the purpose of determining the quantum of securities to be issued has been changed a cogent explanation should be provided in either the explanatory notes accompanying the proposal or the remuneration report.

BIS will consider voting against proposals to grant securities to an executive and/or the remuneration report where, without explanation, the methodology for valuing the securities has not been disclosed or has changed, and/or the valuation process results in an inappropriate number of securities to be issued.

Types of performance measures

BIS believes the remuneration committee is in the best position to determine the appropriate performance measures to be used in a long-term incentive plan. As discussed above, the remuneration report should clearly state why particular performance measures have been used and the link between those measures and the company's long-term strategy and the performance conditions should be structured to prevent undue risk taking by executives.

The performance measures discussed below do not represent a finite list. BIS will consider other performance measures not discussed below on a case by case basis. In each case BIS will be looking for an explanation of why the measure was used, its link to long-term strategy and the potential impact of the measure on the behaviour of management. BIS will support any long-term performance measure where it is clear it will influence the behaviour of executives to act in the long-term interests of shareholders.

Share price targets/absolute total shareholder return (TSR)

BIS does not generally support performance measures that are based on share price targets or absolute TSR as such measures are more influenced by market forces than the contribution of the executives. These measures may also result in executives being rewarded inappropriately as a result of a general rise in the market. The opposite can also occur when there is a significant negative correction in the market and executives who may have made a considerable contribution to the long-term sustainable growth of the company miss out on awards. This situation can lead to issues relating to retention and executive morale.

Relative TSR

In BIS' view relative TSR is only useful at measuring the performance of management when an appropriate peer group can be found. Given the size and depth of the Australian market it is often difficult to find an appropriate peer group with which to measure relative performance.

The use of relative TSR against a general index (e.g. S&P/ASX 200) in BIS' view is not a particularly good measure as a company's TSR is measured against others which have differing business cycles, risk profiles and many other variables that influence performance. Management has very little influence over relative TSR.

Other relative measures may be appropriate if they reflect natural growth in the markets in which the company operates.

Accounting measures

Accounting measures are generally transparent and easily understood by shareholders, particularly when statutory earnings per share (EPS) has been used.

Some companies use “underlying” or “adjusted” accounting measures such as earnings per share. These measures are appropriate where there is an element of revenue or expense which may be outside the influence of management. In cases where an adjusted accounting measure has been used disclosures of the rationale behind the use of an adjusted measure as well as disclosure of the reconciliation between statutory accounting measures and the adjusted measure should be included. Companies using EPS should also exclude the potential short term effects of share buybacks and acquisitions.

When assessing how challenging an accounting based performance hurdle is, BIS will take into account analyst consensus forecasts at the time the hurdle was set.

Return on equity/capital employed

Capital efficiency measures are appropriate where significant investment is required and the business is capital intensive. If capital return performance measures are used, there must be clear disclosure of the capital controls in place to avoid excessive leverage and hence risk.

Economic profit

Economic profit measures the value created in excess of the company’s overall cost of capital. This measure is valid for capital intensive industries as it ensures that the cost of that capital is covered before executive awards are achieved. If used there must be assurance that there are adequate board controls to review judgments exercised for assessing the cost of capital.

Milestone or operational measure

Milestone or operational performance hurdles can encourage alignment of management’s actions with the company’s long-term strategy. Where milestone performance measures are used, full disclosure of the performance measure and the performance hurdle should be provided. BIS does accept that some milestone performance hurdles may contain commercially sensitive information. In such cases, retrospective disclosure of performance against those measures, the hurdles and the percentage of awards vesting should be provided.

BIS will assess the appropriateness or otherwise of milestone performance measures on a case by case basis. BIS will take into account the type of management behaviour that such measures may encourage. For example, if the milestone is to produce a certain quantity of ore in a particular period, BIS would have concerns that this could encourage production to meet the milestone measure but ignores costs of production. Such behaviour is not, in BIS’ view, in the long-term interests of shareholders.

Earnings before interest, tax, depreciation and amortization (EBITDA)

BIS does not generally support the use of EBITDA as a long-term performance measure unless a cogent explanation can be provided. EBITDA can be increased in the medium term through acquisitions that ignore debt and quality of acquisitions. An EBITDA measure can encourage management to take undue risk in growing EBITDA through purchasing assets that may not provide long-term value to shareholders and can increase risk through excessive debt. The result in the medium term is increased EBITDA however the longer term outcome may be undue increased risk to shareholders due to non-performing assets and increased debt.

Incorporation of risk factors in remuneration structures

As discussed above, pursuant to ASX Corporate Governance Council's Principle 7 listed companies should identify, assess, monitor and manage material business risk. The outcome of sound risk management is sustainability of earnings in the long-term.

Companies should explain the impact of the incentive framework on risk. If controls are not in place to encourage sustainable performance an explanation should be provided as to why.

Where management has failed to manage identified risks, such failures reflected in the amount of performance-based remuneration that vests in the performance period where the risk management failure occurred should be provided. Where there has been a failure to manage risk, which has resulted in the loss of shareholder value and this has not reduced performance based pay, a cogent explanation should be provided. If the specific remuneration structure does not incorporate risk then the remuneration committee should have discretion to reduce the level of performance based pay when there has been a failure by management to manage key risks.

The type of risks that should be taken into account in remuneration structures would include, but are not limited to, safety and implementation and maintenance of information technology systems.

Where an earnings based performance measure has been used, BIS encourages companies to disclose how identified risks are managed and not subject to cost cutting in order to increase the performance measure and accordingly performance based pay and leave the company exposed to unmanaged risks.

Treatment of dividends

Where an equity based remuneration vehicle has been used it is important for dividends to be taken into account in the remuneration structure. This is because management should not be influenced by the structure of their remuneration in respect of their capital management decisions. For example, if executives received options which have an exercise price equal to the market price at grant date, one way of increasing the value of the options is to not provide dividends during the performance period or undertake share buy-backs as an alternative to paying dividends.

Where an equity based remuneration vehicle has been used, dividends paid during the performance period should be held in trust until the equity vests and paid to executives on a pro rata basis in accordance with the equity that vests. The value of dividends should be disclosed as a component of remuneration.

To not take dividends into account in equity based incentive schemes may lead to sub-optimal capital management decisions.

Sign-on awards

In cases where a newly appointed executive has forgone remuneration from a past employer in order to take on a new role, a company may reimburse the new executive by way of sign-on remuneration. Where such remuneration has been made full disclosure of the amount paid should be provided. BIS also prefers such remuneration be made in shares or similar at-risk vehicles and should be aligned with the recruiting company's strategy and metrics; vesting can be aligned with the executive's prior employment cycle.

One-off awards

Any one-off award should be based on very exceptional circumstances that would need to be detailed by the company. Without adequate explanation, BIS will usually oppose one-off awards linked to transactions as these awards could create an incentive for executives to undertake unnecessary (and at times value-destroying) acquisitions. Moreover, any merger or acquisition entails significant risks that investors will have to face for a number of years after the transaction. BIS will also usually vote against retention awards as, in our experience, they are not an effective tool to retain employees.

Retention payments

Where an executive's contract has provision for a retention payment, the remuneration report should provide full disclosure of such commitments. BIS prefers to see retention payments with an element of equity.

Termination payments

Executive contracts should not be structured in such a manner as to allow for large payouts as a consequence of poor and inadequate performance.

Currently executive contracts can contain termination provisions that allow for a termination benefit of up to the value of 12 months base remuneration without seeking shareholder approval. BIS will assess on a case by case basis proposals which seek shareholder approval for a termination benefit that exceeds the value of one year's base remuneration.

A number of companies have sought shareholder approval for the early vesting of equity under an executive remuneration plan to be excluded from the calculation of any termination benefit. BIS prefers that any unvested equity vest in the usual time frame for good leavers (see further below).

Post-employment and good leavers

BIS encourages incentive plans that ensure executives remain accountable for their legacy in the event they leave. Providing an executive is a good leaver, in our view long-term plans, in particular, should remain "live", and are tested as usual at the end of the stated performance period. It is believed that such arrangements ensure the selection and development of effective successors.

From BIS' perspective, a good leaver is one who leaves the company due to: retirement, personal circumstances preventing the executive from fulfilling the role, change in control/strategy when the post becomes redundant or the incumbent executive's skills are not aligned. A bad leaver is one which leaves the company due to forced or agreed departure due to inadequate performance or behaviour of that individual.

Retesting

In BIS' view, a well-structured long-term incentive plan that has well chosen performance measures, appropriate performance hurdles and involves annual grants of equity should not require retesting provisions.

However, BIS will assess retesting provisions on a case-by-case basis. Generally, BIS does not support a regime of continual retesting as this may distract management from a longer term focus.

Hedging of securities

Given the nature of the role of KMP's and their access to information, in BIS' view it is inappropriate for executives to enter into hedging arrangements relating to their direct and indirect shareholdings as well as any unvested performance based equity remuneration.

As mentioned above, in certain circumstances BIS believes KMP's should disclose shares subject to margin calls.

Dilution

To ensure that equity based remuneration plans operate in a way that benefits both employees and shareholders, we encourage companies to set a limit on the amount of dilution that can occur across all plans that a company may have. In the case of companies which have a mature business, companies should set a total limit on dilution across all plans, including issued securities subject to plan rules, not exceeding 5% of total issued capital. Companies wanting a limit in excess of 5% should seek shareholder approval.

For companies in an exploration/evaluation/development phase which have a high cash burn rate, providing remuneration to employees, executives and non-executive directors in the form of equity is a means of preserving cash, a limit of up to 10% of issued capital is acceptable.

Disclosure of equity based LTI's

To allow BIS to compare remuneration practices of the companies in which we invest we encourage disclosure, in respect of each KMP, of the fair value at grant date of all equity based remuneration grants, excluding any discounts for the probability of vesting.

Requests for approval of equity grants

ASX Listing Rule 10.14 requires shareholder approval of equity grants that are dilutive to shareholders. The explanatory notes accompanying such proposals should provide full details of the director's remuneration package including fixed remuneration, short and long-term incentives as well as termination provisions. Without this information BIS may be unable to support the proposal. The explanatory notes should also disclose the impact on the structure of the executive's remuneration if the proposal is not passed at the shareholder meeting i.e. would an equivalent amount be delivered in an alternate pay vehicle such as cash.

Approach to assessing remuneration policies of smaller companies

Listed on the ASX are companies that are in an exploration/evaluation/development phase. Often the only revenue is interest and such companies may have a high cash burn rate. It is unreasonable to expect these companies to have remuneration structures that incorporate accounting performance measures and relative return measures. BIS will assess the remuneration policies of these companies on a case by case basis with the focus taking into account the particular phase the company is in, the quantum of remuneration paid to executives and non-executive directors and the potential for unreasonable dilution of shareholders' equity. As these companies move into a production phase BIS encourages companies' remuneration practices to evolve to reflect the change in operational status of the company.

Voting on remuneration reports

BIS assesses remuneration reports on a case by case basis when determining whether or not to provide support. BIS will take into account all issues described above and how the structure will encourage management to behave in a manner which is in the long-term interests of shareholders. BIS will not support remuneration reports where the outcome of the remuneration structures could result in rewards for poor performance and/or there is no link between remuneration structures and the company's stated strategy.

BIS will endeavour to contact companies where we believe voting against the remuneration report is warranted.

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.

When assessing how to vote – including on the election of directors and relevant shareholder proposals – robust disclosures are essential for investors to understand, where appropriate, how companies are integrating material sustainability risks and opportunities across their business and strategic, long-term planning. Where a company has failed to appropriately provide the necessary disclosures and evidence of effective business practices to support our assessment, BIS may express concerns through our engagement and voting. As part of this consideration, we encourage companies to produce sustainability-related disclosures sufficiently in advance of their annual meeting so that the disclosures can be considered in relevant vote decisions.

Robust disclosure is essential for investors to effectively evaluate companies' strategy and business practices related to material sustainability-related risks and opportunities. BIS encourages companies to disclose their approach to ensuring they have a resilient business model covering governance, strategy, risk management, and sustainability-related metrics and targets, including industry-specific metrics. The International Sustainability Standards Board (ISSB) standards, IFRS S1 and S2⁵, provide companies with a useful guide to preparing this disclosure. These 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 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.

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

⁵ 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.

additional time after their fiscal year-end to accurately collect, analyze and report this data to investors. To give investors time to assess the data, we encourage companies to produce climate and other sustainability-related disclosure sufficiently in advance of their annual meeting.

Companies may also choose to adopt or refer to guidance on sustainable and responsible business conduct issued by supranational organisations 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 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.⁶ 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 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.⁷

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.

⁶ BlackRock Investment Institute, "Tracking the low-carbon transition", July 2023.

⁷ 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.

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. Our publicly available [commentary](#) provides more information on our approach to climate-related risks and opportunities.

Natural capital

In addition to climate risk, 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 on and 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. Our publicly available commentary provides more information on our approach to natural capital.⁸

Key stakeholder interests

In order to advance long-term shareholders' interests, companies should consider the interests of the various parties on whom they depend for their success over time. It is for each company to determine their key stakeholders based on what is material to their business and long-term financial performance. For many companies, key stakeholders include employees, business partners (such as suppliers and distributors), clients and consumers, regulators, and the communities in which they operate.

As a long-term shareholder on behalf of our clients, we find it helpful when companies disclose how they have identified their key stakeholders and considered their interests in business decision-making. In addition to understanding broader stakeholder relationships, BIS finds it helpful when companies consider the needs of their workforce today, and the skills required for their future business strategy. We are also interested to understand the role of the board, which is well positioned to ensure that the approach taken is informed by and aligns with the company's strategy and purpose.

Companies should articulate how they address material adverse impacts that could arise from their business practices and affect critical relationships with their stakeholders. We encourage companies to implement, to the extent appropriate, monitoring processes (often referred to as due diligence) to identify and mitigate potential adverse impacts and grievance mechanisms to remediate any actual adverse material impacts. In our view, maintaining trust within these relationships can contribute to a company's long-term success.

Human capital management

A company's approach to human capital management ("HCM") is a critical factor in fostering an inclusive, diverse, and engaged workforce, which contributes to business continuity, innovation, and long-term

⁸ Given the growing awareness of the materiality of these issues for certain businesses, enhanced reporting on a company's natural capital dependencies and impacts would aid investors' understanding. In our view, the final recommendations of the [Taskforce on Nature-related Financial Disclosures](#) may prove useful to some companies. We recognize that some companies may report using different standards, which may be required by regulation, or one of a number of other private sector standards.

value creation. Consequently, we ask companies to demonstrate a robust approach to HCM and provide shareholders with clear and consistent disclosures to help investors understand how a company's approach aligns with its stated strategy and business model.

Some components of HCM are consistent across most companies, such as the approach to diversity, equity, and inclusion ("DEI").

Other relevant HCM factors may be more nuanced to a company's strategy and business model. Those more nuanced factors may include the company's approach to workplace safety, compensation, benefits, talent development, and performance management. We ask companies to disclose and provide context on the most relevant HCM factors for their business.

Our publicly available [commentary](#) provides more information on our approach to HCM.

Shareholder proposals

In most markets in which BlackRock invests on behalf of clients, shareholders have the right to submit proposals to be voted on by shareholders at a company's annual or extraordinary meeting, as long as eligibility and procedural requirements are met. The matters that we see put forward by shareholders address a wide range of topics, including governance reforms, capital management, and improvements in the management or disclosure of environmental and social risks.

When assessing shareholder proposals, BIS evaluates each proposal on its merit, with a singular focus on its implications for long-term financial value creation by that company. We would not support proposals that we believe would result in over-reaching into the basic business decisions of the company. In addition, we believe it helpful for companies to disclose the names of the proponent or organization that has submitted or advised on the proposal. We consider the business and economic relevance of the issue raised, as well as its materiality and the urgency with which our experience indicates it should be addressed.

Where a proposal is focused on a material business risk that we agree needs to be addressed and the intended outcome is consistent with long-term financial 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 an opportunity for improvement in the company's approach to the issue, we may support shareholder proposals that are reasonable and not unduly prescriptive or constraining on management.

We recognize that some shareholder proposals bundle topics and/or specific requests and include supporting statements that explain the reasoning or objectives of the proponent. In voting on behalf of clients, we do not submit or edit proposals or the supporting statements – we must vote yes or no on the proposal as phrased by the proponent. Therefore, when we vote in support of a proposal, we are not necessarily endorsing every element of the proposal or the reasoning, objectives, or supporting statement of the proponent. We may support a proposal for different reasons from those put forth by the proponent, when we believe that, overall, it can advance our clients' long-term financial interests. We would normally explain to the company our rationale for supporting such proposals. Alternatively, or in addition, we may vote against the election of one or more directors if, in our assessment, the board has not responded sufficiently or with an appropriate sense of urgency. We may also support a proposal if management is on track, but we believe that voting in favor might accelerate efforts to address a material risk.

General corporate governance matters

Amendments to constitutions

These proposals vary from routine changes to reflect updates to the Corporations Act, Listing Rules and other regulatory revisions to significant changes that substantially change the governance of the company. BIS will review such proposals on a case by case basis and support those that we believe are in the best interests of shareholders. We will not support proposals that will result in reducing the rights of shareholders.

Bundled proposals

We believe that shareholders should have the opportunity to review substantial governance changes individually without having to accept bundled proposals. Where several measures are grouped into one proposal, BIS may reject certain positive changes when linked with proposals that generally contradict or impede the rights and economic interests of shareholders.

Reincorporation

Proposals to reincorporate from one state or country to another are most frequently motivated by considerations of anti-takeover protections or cost savings. Where cost savings are the sole issue, we will typically favour reincorporation. In all instances, we will evaluate the changes to shareholder protection under the new charter/articles/by-laws to assess whether the move increases or decreases shareholder protections. Where we find that shareholder protections are diminished, we will support reincorporation if we determine that the overall benefits outweigh the diminished rights.

Want to know more?

blackrock.com/stewardship | contactstewardship@blackrock.com

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