BLACKROCK

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London, 13 July 2012

Consultation Paper on Revisions to the UK Stewardship Code

Dear Mr Hodge

BlackRock is pleased to have the opportunity to respond to the Financial Reporting Council (FRC) Consultation Paper on Revisions to the UK Stewardship Code.

BlackRock welcomes a revision of the stewardship code that would give a clearer definition of stewardship, of the role of asset managers and asset owners and would require a greater disclosure on policies on conflict of interest by the signatories.

BlackRock supports greater disclosure of stock lending policies in the revised Code but from the perspective that our stock lending policy is based on the interests of our clients.

BlackRock accepts the disclosure of shareholders' collective engagements in the Stewardship Code. However, it is important to take into account that collective engagements on certain areas can be very challenging.

BlackRock also agrees that the revised Code should include more detailed information on the use of proxy and other voting advisory firms. The disclosure on this issue should be considered in the broader context of stewardship and should explain how the use of voting advisors fits within the broader stewardship activities.

While we welcome calls for recognition that fixed income investors have interest in the long-term success of the company, the legal relationship between debt holders and the company should continue to be considered different from that between shareholders and the company.

Finally, we accept that asset managers be required to disclose their willingness to become an insider in the revised stewardship code.

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We appreciate the opportunity to address and comment on the issues raised by this consultation paper. We are prepared to assist the FRC in any way we can, and welcome continued dialogue on these important issues. Please contact us if you have any comments or questions regarding BlackRock's view.

Yours faithfully,

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BlackRock is a leader in investment management, risk management and advisory services for institutional and retail clients worldwide. At March 31, 2012, BlackRock's AUM was $3.684 trillion (£2.303 trillion). BlackRock offers products that span the risk spectrum to meet clients' needs, including active, enhanced and index strategies across markets and asset classes. Products are offered in a variety of structures including separate accounts, mutual funds, iShares® (exchange-traded funds), and other pooled investment vehicles. BlackRock also offers risk management, advisory and enterprise investment system services to a broad base of institutional investors through BlackRock Solutions®.

Our client base includes corporate, public funds, pension schemes, insurance companies, third-party and mutual funds, endowments, foundations, charities, corporations, official institutions, banks and individuals. BlackRock pays due regard to the interests of its clients and invests according to the investment guidelines set out in client agreements. It is from this perspective that we engage on all matters of public policy. BlackRock supports regulatory reform globally where it increases transparency, protects investors, facilitates responsible growth of capital markets and, based on thorough cost-benefit analyses, preserves consumer choice.

BlackRock is a member of European Fund and Asset Management Association ("EFAMA") and a number of national industry associations[1] reflecting our pan-European activities and reach.

[1] Association of British Insurers (ABI), Association Française de Gestion (AFG), Assogestioni, Association française des Sociétés financières (ASF), Association suisse des institutions de prévoyance (ASIP), Bundesverband Investment and Asset Management (BVI), Dutch Fund and Asset Management Association (DUFAS), Eumedion, Financial Reporting Council (FRC), Irish Association of Pension Funds (IAPF), Irish Funds Industry Association (IFIA), Investment Management Association (IMA), Inverco, Alternative Investment Management Association (AIMA) and National Association of Pension Funds (NAPF).

BlackRock Response to the Consultation Paper on Revisions to the UK Stewardship Code

The definition of stewardship

BlackRock supports greater clarity on the definition of stewardship. We also welcome the broadening of the stewardship activities scope. Stewardship needs to be extended to include engagements on issues that go beyond items that are on the Annual General Meeting (AGM) agenda and that are critical for companies' long term performance, such as strategy, corporate governance and risk. We believe that institutional investors should provide clarity in relation to their stewardship activities and how stewardship is integrated in investment process. We also agree with the recognition by the code that compliance with the Code does not constitute "an invitation to manage the affairs of a company".

The roles of asset owners and asset managers

BlackRock welcomes clarification on the responsibilities of asset managers and of asset owners as it would provide greater understanding of the different roles that asset managers and asset owners can have in exercising their stewardship activities. We also believe that for asset owners should hold their asset managers responsible for exercising stewardship activities on their behalf. Please note the findings of 2020 Stewardship Working Group (of which BlackRock is a member) regarding the need for improvements in both the quality and quantity of stewardship. The report findings, which were published in March 2012, called for the creation of a tool that could be used by asset owners to help guide them in appointment of asset managers as well as the monitoring of their stewardship activities by asset managers. The tool is specifically looking to assist asset owners in their due diligence process and to enable them to identify and differentiate between those asset managers who are committed to investor stewardship.

Conflicts of interest policies

BlackRock supports requirements for greater disclosure by signatories on policies governing the management of conflicts of interest. We believe that information disclosed needs to go beyond standard language and generic statements to include specific items of the policy. At the same time, the key policies must be easy to identify and not get lost in the detail.

Collective engagement

BlackRock supports proposals that result in greater disclosure on collective engagement beyond the membership of and participation in industry bodies. It is, however, worth highlighting the challenges in relation to collective engagement. First, it should be recognised that collective engagement or shareholder collaboration is not universally considered to be positive by investors, companies or regulators. Second, while collective engagement can be a way of sharing workload, engaging with a greater number of companies and can be very effective on policy issues, such as board disclosure on diversity policies, collective engagement focused on matters such as strategic direction or company leadership can be much more difficult to achieve. We believe that in such instances, collective engagement should be used selectively.

In practice, collective action is difficult to manage given that shareholders tend to have a range of perspectives. In BlackRock's experience, even when there is agreement that a problem exists, it can be very difficult to agree on a single course of action or timeframe in which any action ought to be taken. This diversity of opinion is not a flaw in the system, but a strength as it brings a range of alternative solutions to the situation. Nonetheless, it is not always possible to reach a consensus and in many collective engagements, shareholders ultimately take their own stance directly to the company. This is further exacerbated in markets with dispersed ownership.

We believe that to be effective, collective engagements, particularly on sensitive or value-related matters, requires mutual trust amongst the shareholders, respect for the different perspectives and knowledge of one another's motives. This generally takes time and personal contact to establish, although it could be addressed in part by a code of conduct or *modus operandi* for collective engagement, setting out mutually accepted ground rules on the use of the media, representation of the views of others, competition issues and so on.

Without wanting to labor the point, even if a group of shareholders did succeed in agreeing on an engagement strategy, it is still only making representations to a board or management team. The company representatives ought to listen to the group's concerns and suggestions weigh them up and then decide on the best course of action for the long-term sustainability of the company.

The use of proxy voting or other voting advisory services

BlackRock supports more detailed disclosure on the use of proxy and other voting advisory firms in the revised Code. The disclosure on this issue should be considered in the broader context of stewardship and should explain how the use of voting advisors fits within the broader stewardship activities. We also would like to highlight here our response to ESMA consultation on the use and influence of proxy voting firms by investors.[2]

Stock lending

BlackRock pays due regard to the interests of its clients and this is from this perspective that our stock lending policy is defined.

There is, therefore, no presumption in favour of either continuing to lend securities or recalling on-loan securities to vote as each situation is analysed based on client agreements and preferences and on the nature of the voting item. We recall our on-loan stock when we consider it to be in our clients' best interests to vote on all of our holdings.

Based on the above, BlackRock supports greater disclosure on stock lending policies in the Stewardship Code. Effective stewardship requires assessment of the costs and benefits of recalling stock to vote against the loss of income on lent stock that this entails. It is the ultimate interests of those on whose behalf investments are held that matter in this regard.

Other asset classes

While we support calls for recognition that fixed income investors have interest in the long-term success of the company, it is important to note that the legal relationship between debt holders and the company is different from that between shareholders and the company.

Debt holders have different rights to those of shareholders, which create basis for stewardship activities. While their relationship with the company should be constructive, first and foremost the relationship is contractual.

These are important points for institutional investors considering stewardship activities across different asset classes and therefore it is important that the revised Code only invites those adopting such practices to make reference to them, rather than making it a requirement. We believe a more in depth discussion is required before it can be considered a best practice requirement under the Code to undertake stewardship activities in relation to debt instruments.

As the largest asset manager in the world, BlackRock engages with companies in all regions, admittedly with a different intensity depending on the market specific issues and on a culture of engagement in a particular market.

Assurance Reports

BlackRock views a shift towards assurance reports on stewardship activities as a positive step where signatories to the Code will be required to explain why differing standards of verification are suitable in providing sufficient outside scrutiny of statements and practices. We agree that assurance reports when/if they exist, should be made available for clients and potential clients. I would like to highlight in this context the work conducted by 2020 Stewardship working party to develop a tool to identify and assess stewardship activities which could then potentially be subject to an external assurance. We also highlight the wording on "comply or explain" on this issue where investment managers should be able to comply or explain their approach to independent assurance

Relevance of signatories statements

[2] https://www2.blackrock.com/webcore/litService/search/getDocument.seam?source=LITLIST&contentId=1111167854&venue=pub_ind

We support requirement for signatories to update / refresh their statements on an annual basis. We believe that annual review of signatory statement is valuable both for internal purposes (as self-assessment tool) but also as an external tool that can be used by existing and potential clients and other service providers.

Other substantive changes to the Code

Insider information

BlackRock supports the disclosure of any willingness to become an insider in the revised Code. BlackRock acts in the best interest of its clients and it is from this perspective that we can accept to be an insider from time to time and for a short period of time. We would act as an insider only if its serves the interests of our clients first. As such we try to find the right balance between the interests of our clients and the constraints on trading that being an insider would generate. As the biggest asset manager in the world, it is for legitimate reasons that we are asked to be an insider given we have a broad view on specific markets.