BLACKROCK

2 March 2018

Catherine Horton
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Submitted via email to codereview@frc.org.uk

RE: Proposed Revisions to the UK Corporate Governance Code

Dear Catherine,

BlackRock[1] is pleased to have the opportunity to provide a response to the Financial Reporting Council's (hereafter, the FRC) consultation on changes to the UK Corporate Governance Code. We also welcome the invitation to provide initial comments on the pre-consultation of the upcoming review of the UK Stewardship Code.

BlackRock supports a regulatory regime that increases transparency, protects investors, and facilitates responsible growth of capital markets while preserving consumer choice and assessing benefits versus implementation costs.

We welcome the opportunity to address, and comment on, the issues raised by this consultation and we will continue to contribute to the thinking of the FRC on any specific issues that may assist in improving UK corporate governance.

We would welcome any further discussion on any of the points that we have raised.

Yours faithfully,

Amra Balic
Managing Director
Investment Stewardship
amra.balic@blackrock.com

Joanna Cound
Managing Director
Public Policy
joanna.cound@blackrock.com

[1] BlackRock is one of the world's leading asset management firms. We manage assets on behalf of institutional and individual clients worldwide, across equity, fixed income, liquidity, real estate, alternatives, and multi-asset strategies. Our client base includes pension plans, endowments, foundations, charities, official institutions, insurers and other financial institutions, as well as individuals around the world.

Consultation on changes to the UK Corporate Governance Code

Executive summary

The original Cadbury Report sets out very clearly that boards must have the flexibility to make choices appropriate for the long-term sustainability of their companies, and that the accountability which comes with this flexibility should be at the heart of corporate governance.[2] We believe that over the years this guiding principle has become somewhat diluted by the number of prescriptive parameters added by multiple revisions to the UK Corporate Governance Code (hereafter, the Code). Since its start in 2010, the Code has been amended on three occasions to introduce more processes and parameters covering independent external board evaluation, gender diversity on boards, auditor rotation and the role of the audit committee, executive pay and remuneration committee composition, and board culture, among others. This has resulted in a focus on compliance, which may distract the board from performing its inherent oversight responsibilities.

BlackRock supports the comprehensive approach the FRC is taking to this review of the Code. For the review to improve the quality of governance of UK companies, we believe it must be seen as practical for boards. BlackRock shares the FRC's view that, over time, focus has shifted away from understanding the principles which underpin good corporate governance and demonstrating intent to adhere to these principles. A comprehensive review presents an opportunity to refocus on the principles and the purpose of the Code, going back to the essence of the Code.

Some of the proposed revisions in this current review are responding to topical concerns, such as workforce diversity, workforce pay, and climate risk. The management of these are indeed important to the long-term success of the company and we believe they are matters which should be subject to Board oversight. BlackRock believes the appropriate approach is for the board, through its oversight function, to work with management to ensure sound policies exist on these business management issues. The board should not micromanage the execution of these policies, but be knowledgeable about management's goals and progress on these issues as matter of course in its normal oversight.

BlackRock believes the outcome of this consultation should be a Code which empowers boards to make the appropriate decision for the long-term success of their companies. Specifically, boards should be clear on the expectation that they can – and should – consider alternative models of good governance and adopt the most appropriate model for their companies' sustainable growth, rather than simply following the standardised approach that has become market practice. Boards should be equally clear on the expectation that a sound and robust rationale be provided in support of the model chosen, including why it is the most appropriate for the company.

In BlackRock's view, corporate governance is not a matter of compliance. Corporate governance is a matter of the quality of the leadership provided by the board of directors and the quality of management delivered by executives. We believe that companies with sound corporate governance practices, including how they manage the

[2] For example, *"The country's economy depends on the drive and efficiency of its companies. Thus the effectiveness with which their boards discharge their responsibilities determines Britain's competitive position. They must be free to drive their companies forward, but exercise that freedom within a framework of effective accountability. This is the essence of any system of good corporate governance.";* 1992, Cadbury Report (The Financial Aspects of Corporate Governance), p. 11.

environmental and social aspects of their operations, offer better risk-adjusted returns over time.

In the following paragraphs, we have developed the cross-cutting themes informing our answers to the FRC's specific questions related to the Corporate Governance Code. Our response to the FRC's initial consultation on the future direction of the UK Stewardship Code starts on page 9.

A return to principles: practical applicability of the Code

A key feature of the UK Corporate Governance Code is its 'comply or explain' approach – that is, the flexibility it provides boards to adopt alternative governance practices which may better fit their companies' specific circumstances provided the principles of good governance are still met, and a clear and robust explanation has been set out for the merits of the alternative practice. It is this very concept which makes the Code practical. We have heard from boards more than once that while they believed an alternative structure to be more appropriate, they decided to follow the status quo because the majority of shareholders were not prepared to accept anything different. In order for 'comply or explain' to truly be effective in achieving high-quality governance standards, boards and shareholders alike must ensure they keep the Code's principles at the forefront of their decision-making.

We recommend that the revised Code continues to give boards flexibility in designing governance models and subsequently holds them accountable for the quality of their oversight, rather than detailing standardised processes and parameters, such as using tenure as a strict measure of independence (discussed below), or the undertaking of an external board evaluation once every three years (as opposed to a more regular frequency).

Board competency and accountability

A return to principles would serve to reinforce the role and responsibilities of the board, including those of its committees by bringing board and director competency and accountability back into the forefront as a baseline principle of good governance. It should also serve to remind boards and shareholders that the measure of a successful board is not the structure or mechanisms it puts in place to oversee management, but rather the quality of the leadership and oversight it provides.

BlackRock's approach to corporate governance is to focus on the board of directors as the agent of shareholders, providing direction and leadership to management as well as competent and effective oversight. Boards should comprise the required mix of skills and experience to oversee the execution of the company's long-term strategic objectives. In BlackRock's submissions to the 2016 BEIS Committee's inquiry on corporate governance, and the 2017 BEIS Green Paper on Corporate Governance Reform (hereafter, the Green Paper), we identified director competency and accountability to be at the roots of sound corporate governance. We see competency as a measure of director quality and define it as the ability to make critical judgments. In our view, this requires a combination of the requisite professional skills and experience as well as interpersonal capability encompassing strength of character, personality and behaviour. A high-quality and effective board will comprise competent directors able to ensure healthy and robust discussions during meetings.

In having the right composition, BlackRock's expectation is that boards are equipped to consider the long-term impact of the company on its stakeholders, as is clearly laid out as part of directors' duties within Section 172 of the UK Companies Act 2006 (hereafter, the Companies Act). We believe the Code should encourage boards to disclose how they discharge such duties in alignment with Section 172 and in the interest of long-term sustainable performance. Such an approach would foster greater accountability, more so than the increasingly common compliance-based practices. We believe this should be done primarily through overseeing management on how well stakeholder input is being captured and acted upon. As suggested in our response to the Green Paper, the following methods should be reflected in the revised Code to ensure more intentional discussion at board level:

- Boards should report to shareholders in the annual report on how they have engaged with management throughout the year on stakeholder considerations.
- Management should improve the current level of reporting on their stakeholder engagement process, e.g., identification by management of relevant stakeholders and their interests, disclosure on the setting of objectives or action points, updates on achievements and progress.
    - In this report, management should confirm how the board was made aware of its stakeholder engagement process and its objectives.

<u>Sustainability and stakeholder interests</u>

We regard advocating corporate governance practices which, we believe, will maximise long-term value creation to be part of being a good steward of our clients. Central to this is engagement with boards and management on the topics essential to delivering sustainable value for shareholders. We regularly ask CEOs to lay out for shareholders a multi-year strategic framework for long-term value creation.[3] In our engagement with boards, we seek to understand how management is implementing this long-term strategy, and how it is approaching the range of factors, internal and external, that contributes to the company's sustainable growth.

In our view, the principles of good corporate governance should, as has always been intended, support the long-term success of the company to the benefit of all of its stakeholders. This includes its shareholders, workforce, customers and the communities in which it operates. There is increasingly the expectation that, in pursuing long-term success, companies should also serve a social purpose which will enhance long-term value for shareholders. The expectation on boards, then, is that they help their companies articulate and pursue their purpose, as well as respond to questions that are increasingly important to their stakeholders.

To help boards meet this growing expectation, we recommend that the Code encourage an approach to shareholder engagement which is meaningful and productive – one which moves away from the short-term and agenda focus on annual meetings and proxy votes, and instead leads to improved dialogue about critically important matters such as the company's purpose, strategy and culture. This shift should enable boards to refocus on explaining their company's strategy for delivering sustainable long-term financial performance as well as their process for overseeing the strategy.

[3] Our Chairman and CEO, Larry Fink, in his annual letters to CEOs, highlights our view that ESG factors relevant to a company's business can provide essential insights into management effectiveness and thus a company's long-term prospects. This year's letter is available here: https://www.blackrock.com/corporate/en-zz/investor-relations/larry-fink-ceo-letter

Response to questions

Q3. Do you agree that the proposed methods in Provision 3 are sufficient to achieve meaningful engagement?

The following points inform our response to this question,

- The proposed methods are the three mechanisms laid out by BEIS in its response to the Green Paper. These do not represent an exhaustive list. Listing only these three options runs the risk that boards default to one of them, viewing them as a preferred or 'approved' list.
- This question is seeking to address directors' duties, through focusing on compliance with one subset of their duties. The question instead should address directors' intent. In our view, without having the right intent – the accountability to stakeholders – the question of which mechanism becomes moot because the outcome will inevitably turn into a compliance exercise.

We are typically agnostic as to which governance models boards choose to help them carry out effective oversight, provided we consider their explanation to be sufficient. However, it is important that we highlight our concerns with employee representation in the UK model. BlackRock believes that all directors appointed to the board should act in the long-term interests of *all* shareholders and represent their views and concerns, rather than only those of a particular subset of stakeholders. The unintended consequence of mandating stakeholder representation on boards is the creation of separate classes of directors, thereby creating special interest groups. This may undermine the effectiveness of the board as it may curtail the ability of the board to fulfil its duty in the event that different stakeholders' interests are deemed to be in conflict.

We equally have concerns with a formal workforce advisory council or anon-executive director designated to gather views from the workforce. These models fall outside management's stakeholder engagement process, and we believe management bears the primary responsibility for management of stakeholder considerations.

While these three mechanisms could achieve meaningful engagement – if supported by the correct intent (accountability to stakeholders), we reiterate that other mechanisms not proposed under Provision 3 may also have merit in helping the board access the views of the workforce and other stakeholders. Referring to our earlier suggestion, we believe the best approach to achieving meaningful engagement on workforce and other stakeholder views is to ensure more purposeful discussion at board level.

Q4. Do you consider that we should include more specific reference to the UN SDGs or other NGO principles, either in the Code or in the Guidance?

BlackRock supports the initiative to reinforce the inclusion of stakeholder considerations within the board's responsibilities. However, including specific reference to the UN SDGs, other NGO principles or third-party initiatives in the Code or Guidance could lead to unintended consequences. Third-party principles or initiatives may be more or less relevant to specific companies and sectors. Requiring *all* companies to give consideration to them irrespective of their sector and operating framework will most likely result in boilerplate responses. Instead, we believe a company should determine to which, if any, additional guidelines it is appropriate for it to adhere.

Q5. Do you agree that 20 per cent is 'significant' and that an update should be published no later than six months after the vote?

Further to our response to the Green Paper, BlackRock considers a rejection rate of 25 per cent to be a signal to the board that a 'significant minority' of its shareholders are dissatisfied. We agree with the requirement to publish an update no later than six months after the vote, bearing in mind that some concerns will take longer to address. In these cases, a progress update would be welcomed.

Q6. Do you agree with the removal of the exemption for companies below the FTSE 350 to have an independent board evaluation every three years? If not, please provide information relating to the potential costs and other burdens involved.

We recognise that there might be administrative burdens and costs associated with the adoption of certain governance principles established by the Code which may be disproportionate for companies below the FTSE 350. Notwithstanding this, we encourage all companies to strive to adopt the good governance principles established by the Code and, where not possible, we believe that it is incumbent on those companies to provide thoughtful and company-specific explanations for not applying certain principles within the Code.

Q7. Do you agree that nine years, as applied to non-executive directors and chairs, is an appropriate time period to be considered independent?

BlackRock assesses board quality using the starting measure of the overall mix of skills, experience and independence of the board as a whole. We look to assess how this composition aligns with the company's stated long-term strategy. In BlackRock's view, and as said above, the overall composition of the board is more important than any one director's classification of independence. To this end, we believe well-governed boards should naturally review their composition on an on-going basis to effect orderly succession which addresses not only the overall mix of years of service, but also that skills, experience and contribution of each director. In other words, this review should not take place only when a director is approaching a pre-defined length of service.

While we recognise that using a pre-defined tenure to determine independence can provide useful guidance, as well as a concrete prompt to boards to refresh their composition at appropriate intervals, what has happened in practice is the dilution of this principle of good governance (independence of thought and the ability to challenge) into a binary characteristic (nine years of service less one day vs. a full nine years). The result is that some good directors with relevant skills and experience are forced off the board when they reach nine years of service, while other directors, who may contribute less to the overall strength of the board, are left to occupy their board seats until their nine years are up. Boards should have the flexibility to retain a long-serving director who is a key contributor to the overall quality of the board, as long as a strong and robust explanation is provided and the overall mix of independence, skills and contribution of the board enables effective board oversight in the long-term interests of the company and its stakeholders.

In fact, tenure is only one of a number of criteria BlackRock takes into consideration to assess the overall balance of the independence of boards. Other factors we look at include employment by the company or a subsidiary as a senior executive within the previous five years; status as a founder of the company; substantial business or personal relationships with the company or the company's senior executives; family relationships with senior executives or founders of the company; and shareholding in the company over 10 per cent of the issued capital.

Because some boards will still find a level of guidance preferable, our recommendation is the Code retain a pre-determined length of service to act as a guiding threshold. The Code should not, however, insist that directors should step off the board, or presume that they necessarily lose their independence, as soon as they surpass this threshold. We believe the Code would allow for more practical application if it instead reminded boards to focus on ensuring – through getting the right balance of independence, skills and contribution – competent and effective oversight.

Q8. Do you agree that it is not necessary to provide for a maximum period of tenure?

BlackRock believes the annual re-election of directors is another feature within the Code which should encourage boards to naturally review their composition on a regular basis. If boards are being responsible and accountable in their succession planning and refreshment, then we agree it is not necessary to specify a maximum period of tenure.

Q9. Do you agree that the overall changes proposed in Section 3 of the revised Code will lead to more action to build diversity in the boardroom, in the executive pipeline and in the company as a whole?

The overall changes proposed in the provisions for Section 3 of the revised Code are generally aligned with our view on the need to improve companies' human capital management. However, we believe human capital management – including developing diversity in senior and executive management, and ensuring workforce pay policies promote the long-term success of the business – is a business management issue. The board's responsibility, on the other hand, is to provide competent and effective oversight of management. With respect to human capital management, the board should have regular and intentional discussions on management's objectives, and it should be aware of, and oversee, management's progress on these objectives. The Code should therefore focus on encouraging more purposeful discussion at board level, rather on developing requirements and processes for the nominations committee.

Q10. Do you agree with extending the Hampton-Alexander recommendation beyond the FTSE 350? If not, please provide information relation to the potential costs and other burdens involved.

Please see answer to Q6. In a similar vein, we believe the Hampton-Alexander recommendations should be extended to companies beyond the FTSE 350 on a 'comply or explain' basis.

Q11. What are your views on encouraging companies to report on levels of ethnicity in executive pipelines? Please provide information relating to the practical implications, potential costs and other burdens involved, and to which companies it should apply.

Companies should report on aspects of their business management processes where it is materially relevant to the long-term success of the business. As mentioned in Q9, We consider human capital management, including talent development and workforce diversity, to be material to the long-term success of all businesses. We believe the primary message the Code should deliver is that successful businesses should enhance diversity in all forms throughout the organisation. This proposal risks focusing on limited dimensions of diversity, such as ethnicity and social background.

We recommend that the Code reinforce the need for boards to review their overall composition for the appropriate balance of skills, experience and contribution, including diversity in all its forms.

Q14. Do you agree with the wider remit for the remuneration committee and what are your views on the most effective way to discharge this new responsibility, and how might this operate in practice?

Please see answer to Q9. The same can be said about the proposed changes for the remit of the remuneration committee in Section 5.

Q15. Can you suggest other ways in which the Code could support executive remuneration that drives long-term sustainable performance?

Please see answer to Q16.

Q16. Do you think the changes proposed will give meaningful impetus to boards in exercising discretion?

Executive pay has long been a focus of shareholder engagement for BlackRock's Investment Stewardship team. It is one of our engagement priorities for 2017-2018 – as we assess how well boards establish a connection between strategy, long-term shareholder value creation and incentive plan design. In other words, we expect boards to demonstrate that executives are rewarded for delivering strong and sustainable returns over the long-term, as opposed to short-term hikes in share price.

We believe the Code sufficiently addresses the principle that executive pay should promote the long-term success of the company, and should be aligned with its strategy and values. We believe the provisions laid out in the proposed revisions provide a good summary of current expectations of best practice. Notably, however, the guidance does not make it clear that boards have the flexibility to adopt alternative models if they are considered more appropriate for their companies. Similarly, although the provisions are clear on boards needing the ability to exercise discretion to override formulaic pay outcomes, it does not underscore the principle of accountability to shareholders which would be one of the prime reasons for requiring this discretion.

Initial consultation on the future direction of the UK Stewardship Code

Executive summary

We welcome this early opportunity to be consulted on the upcoming review of the UK Stewardship Code (hereafter, the Stewardship Code). BlackRock is a signatory to the Stewardship Code and we remain supportive of its objective to help build a critical mass of investors willing and able to engage with the companies in which they invest, to increase the quality of engagement, and to increase accountability down the investment chain to clients and beneficiaries.[4]

We regard investor stewardship as an important means to protect and enhance the economic value of the assets clients have entrusted to BlackRock. We will actively contribute to the process of revision to the Stewardship Code. We believe the outcome can further support companies in delivering long-term sustainable growth and business success for shareholders and other stakeholders.

As with our response to the UK Corporate Governance Code consultation, we set out three themes informing our response that also address a number of the FRC's specific questions. In this pre-consultation phase, we will restrict our submission to these themes and related questions.

Harmonisation of stewardship codes

BlackRock supports greater harmonisation among stewardship codes. A cohesive, principles-based framework is preferred over a country-by-country approach to stewardship. BlackRock recognises that accepted standards of corporate governance differ between geographic markets but we believe there are sufficient common threads globally to identify an overarching set of good governance principles. Similarly, our framework for stewardship accommodates local governance conventions while being applied in a consistent manner. We look for the Stewardship Code review to secure a common approach to stewardship across markets.

The EU Shareholder Rights Directive, to be implemented by June 2019, provides an effective framework for shareholder engagement. It is illustrative of a common approach to stewardship across a range of markets and corporate governance models. A revised Stewardship Code provides an opportunity to address and resolve any unnecessary points of divergence from the shareholder engagement provisions in the EU Shareholder Rights Directive.

Code guidance on the stewardship agenda

We recognise the important role shareholders and wider stakeholders play in promoting long-term business success. There is an opportunity in this revision period to refocus the Stewardship Code on aspects of investor best practice when carrying out the stewardship function. To achieve this, we recommend that the Stewardship Code avoids being overly prescriptive in setting the agenda for engagements between companies and investors. For example, we do not consider it necessary for the Stewardship Code to explicitly refer to ESG factors, including climate change and diversity. Rather, we believe an effective Code should retain a focus on the quality of stewardship rather than be overly prescriptive with regard to content or agenda. In the

[4] BlackRock's statement of compliance to the UK Stewardship Code is available here: https://www.blackrock.com/corporate/en-gb/literature/fact-sheet/blk-responsible-investment-statementoncompliance-uk-stewardshipcode.pdf

forthcoming dedicated consultation on the Stewardship Code, we encourage the FRC to seek a wider discussion on what constitutes identifiers of quality with regard to stewardship and engagement.

Clarification on scope of stewardship

BlackRock's approach to investment stewardship helps companies understand our expectations as a long-term investor acting on behalf of our clients and, in turn, helps us understand the business challenges they are facing. Our focus is on long-term economic outcomes, and we engage with companies on a range of issues, including board composition, executive compensation, and disclosure practices. We engage primarily through dialogue, but also through voting at general meetings.[5] We regard the tools of voting and dialogue to be most effective when used together.

We would welcome a Stewardship Code that retains focus on the vital relationship between a listed company and its investors. To this end, while we see merit and simplicity in a single Stewardship Code, we are open to the opportunity for separate codes of best practice if this approach delivers more effective stewardship in the long term.

The Stewardship Code should refrain from setting an expectation that investors proactively engage with other stakeholder groups. The natural locus for all stakeholder views to be assimilated is at a company level and rests with the board and management.

We also encourage a revised Stewardship Code to appropriately delineate the role and responsibilities of shareholders as active monitors of the elected board from the task of the board itself. This will avoid any creeping risk that shareholders stray into advising or instructing on the day-to-day management of companies.

Response to questions

Q17. Should the Stewardship Code be more explicit about the expectations of those investing directly or indirectly and those advising them? Would separate codes or enhanced separate guidance for different categories of the investment chain help drive best practice?

While we see merit and simplicity in a single Stewardship Code, we are open to the opportunity for separate codes of best practice if this approach delivers more effective stewardship in the long term. We do not wish a single Code to discourage the development of individual codes or guidance of best practice along the investment chain. The Best Practice Principles for Shareholder Voting Research Providers, developed by the professional governance research industry, is one example of an effective separate code. So too is the Voluntary Code of Conduct in Relation to Executive Remuneration Consulting in the United Kingdom developed by remuneration consultancy firms in the UK.

[5] Further detail is available here: https://www.blackrock.com/corporate/en-gb/about-us/investment-stewardship

Q18. Should the Stewardship Code focus on best practice expectations using a more traditional 'comply or explain' format? If so, are there any areas in which this would not be appropriate? How might we go about determining what best practice is?

BlackRock is supportive of a voluntary, non-statutory approach to investment stewardship. The 'comply or explain' model has become the cornerstone to the Corporate Governance Code in the UK and internationally. Consequently, a similar 'comply or explain' approach for reporting against the Stewardship Code may be appropriate. However, we caution against such a model becoming overly prescriptive such that it stifles alternative, yet purposeful and creative, means of fulfilling the goals of stewardship.

Q21. How could an investor's role in building a company's long-term success be further encouraged through the Stewardship Code?

Please see our answer to Q18. In addition, we recognise that there are many styles and approaches to investing. We support a degree of self-determination as to which tools and approaches to stewardship each investor may choose to adopt. The Stewardship Code itself may not be best suited to determine the appropriate role an investor can play in supporting long-term business success. Aligning the recommendations of the UK Stewardship Code with the revised EU Shareholder Rights Directive requirement on shareholder engagement policy will, we believe, contribute to reinforcing investors' as stewards. Continuous investor engagement on companies' material ESG matters and voting – and the disclosure of related activities, would help improve stewardship practices and better align them with long-term value creation.

Q22. Would it be appropriate to incorporate 'wider stakeholders' into the areas of suggested focus for monitoring and engagement by investors? Should the Stewardship Code more explicitly refer to ESG factors and broader social impact? If so, how should these be integrated and are there any specific areas of focus that should be addressed?

As set out in Q4 in the consultation on Proposed Revisions to the UK Corporate Governance Code, BlackRock supports the initiative to reinforce the inclusion of stakeholder considerations within a board's responsibilities. We acknowledge the importance of the wider stakeholder voice in the investment stewardship agenda. However, the Stewardship Code should refrain from setting an expectation that investors proactively engage directly with other stakeholder groups. The natural locus for all stakeholder views to be assimilated is at a company level and rests with the board and its management.

Q24. How could the Stewardship Code take account of some investors' wider view of responsible investment?

Please see our answers to Q18 and Q21. The Stewardship Code should set the overarching principles that promote high quality stewardship. Consequently, we support a Stewardship Code that does not seek to provide an exhaustive menu of the full spectrum of investment styles and specialisms.

Q25. Are there elements of international stewardship codes that should be included in the Stewardship Code?

We encourage greater harmonisation among stewardship codes. The forthcoming review of the Stewardship Code is a timely opportunity to accelerate the drive toward international harmonisation. The EU Shareholder Rights Directive, to be implemented in 2019, provides an effective framework for shareholder engagement. It is illustrative of a common approach to stewardship across a range of markets and corporate governance models.

Q27. Would it be appropriate for the Stewardship Code to support disclosure of the approach to directed voting in pooled funds?

There are a number of operational complexities that make split fund voting difficult for the asset management industry. We believe a solution to this concern is not asset manager-specific but instead requires industry-level standards to be developed among asset managers, asset owners, asset servicers and other intermediaries in the voting chain. Key industry representatives such as the Investment Association (but not only) would also be important stakeholders. BlackRock is willing to be a part of this discussion.

Q28. Should board and executive pipeline diversity be included as an explicit expectation of investor engagement?

Inclusion and diversity are key to BlackRock's success. By leveraging our diverse experiences, backgrounds and insights, we can inspire innovation, challenge the status quo and create better outcomes for our people and our clients. It is therefore natural that we recognise the importance of board and executive pipeline diversity at the companies in which we invest. However, as set out in our response to Q18, we caution against the Stewardship Code imposing a prescriptive menu of engagement topics. It is our recommendation that the revised Stewardship Code encourages the highest standards of processes by which investors identify the pertinent issues for constructive dialogue with investee companies. This is especially important given the long-term and evolving nature of many of the issues on which shareholders engage the companies in which they invest.

Q29. Should the Stewardship Code explicitly request that investors give consideration to company performance and reporting on adapting to climate change?

Please see our answer to Q28. In a similar vein, BlackRock has established disclosure of climate risks as one of its five engagement priorities for 2017-2018. We choose to enter into dialogue with companies affected by material climate risks in their business operations as we believe reporting to consistent disclosure standards would enhance our understanding of the impact of climate change on individual companies, relevant sectors and investment strategies. However, not every investor may elect to make the same choice when identifying engagement priorities. Consequently, we do not consider it necessary for the Stewardship Code to guide investors towards a specific engagement agenda.