BLACKROCK

20 December 2013

Submitted via email to: consultation@bppgrp.info

RE: Public Consultation on Best Practice Principles for Governance Research Providers

Dear Sirs,

BlackRock is pleased to have the opportunity to respond to the public consultation on Best Practice Principles for Governance Research Providers.

BlackRock is one of the world's pre-eminent investment management firms and a premier provider of global investment management, risk management and advisory services to institutional and retail clients around the world.

As of 30 September 2013, the assets BlackRock manages on behalf of its clients totalled €3.03 trillion (£2.54 trillion) across equity, fixed income, cash management, alternative investment and multi-investment and advisory strategies including the iShares® exchange traded funds.

BlackRock has a pan-European client base serviced from 22 offices across the continent. Public sector and multi-employer pension plans, insurance companies, third-party distributors and mutual funds, endowments, foundations, charities, corporations, official institutions, banks and individuals invest with BlackRock.

BlackRock believes that proxy advisory firms play an important role in enabling institutional investors to fulfill their duties towards their clients. The industry has become an integral and necessary part of institutional investors' execution of voting rights. At the very least, institutional investors rely on proxy advisors to repackage relevant shareholder meeting materials such as issuer publications and publicly available news flow into a concise and consistent format that can be more efficiently reviewed. Institutional investors are likely to also use proxy advisory research to help determine which resolutions will require greater attention or more in-depth analysis.

In 2012 the European Securities and Market Authority published a discussion paper on an overview on the proxy advisory industry and possible policy options. BlackRock's response to the paper outlined in greater detail the importance of the proxy advisory industry to institutional investors, as summarised above, and advocated for a market-led approach to addressing standards across the industry.[1]

We believe that no market failure has stemmed from the activities of the proxy advisory industry. However, BlackRock considers that greater transparency around policies and processes would foster greater credibility as well as broader market comfort with the industry. Areas where increased transparency would be beneficial include the establishment of processes on research, analysis and vote recommendations, on-going training of staff, and policies on conflicts of interest.

Further, BlackRock believes that the appropriate mechanism to oversee the transparency and the quality of services provided by proxy advisory industry already exists in the relationship between the proxy advisory firms and their clients, the institutional investors. It is within the scope of the investors' duties of care and diligence to oversee their chosen data providers and research vendors, including proxy advisors. In this way, institutional investors already have access to sufficient information to assess the quality of the product delivered, and we have the ability to remediate quality issues in proxy advisors' services via market discipline. We refer to

[1] See BlackRock's Response to ESMA's discussion paper on an overview of the proxy advisory industry – considerations on possible policy options, June 2012.

our comment to the 2010 concept release on the US proxy system published by the US Securities and Exchange Commission, in which we explained that the quality of proxy advisory research has generally improved over time.[2] BlackRock believes that institutional investors provide regular feedback to the industry on the level of service received, including any cases of inaccuracies or incomplete data appearing in the research. We believe this mechanism works well, as suggested by the continuing improvements in the quality of proxy advisory research over the past several years. We consider that substantial additional regulation of proxy advisory firms would likely impose costs that will ultimately be borne by investors. BlackRock remains supportive, instead, of a market-established code of best practice as the most effective and efficient mechanism for oversight.

Moreover, BlackRock acknowledges that this discussion stems from the question over the influence of proxy advisory firms on how institutional investors vote. As such, we believe that any effort to build market confidence in proxy advisors should include investor transparency regarding their use of proxy advisors, as well as what resources the investors themselves devote to voting and stewardship more broadly.

In regards to the Principles proposed, BlackRock considers them to represent a good initial framework for a best practice code of conduct for the proxy advisory industry. However, we believe the Principles are very high level and could be further improved by identifying the key areas for signatories to address, such as transparency around the establishment of policies and processes. One way to improve this could be to elevate to Principles some of the rather meaningful points currently outlined under the guidance to the Principles. For example, the guidance in Principle 1 that signatories should have and disclose a written research policy that outlines the extent to which local conditions and customs are taken into account could better serve as a Principle as follows, “Signatories’ policies should take into account local conditions and customs. Disclosure should be provided on how these factors are incorporated into the research policy.” Guidance can then be given on how these local conditions and customs could be taken into consideration.

BlackRock supports the practicality of a comply-or-explain approach to the Principles, particularly as these are best practice principles. The Principles should be reviewed on a regular basis, perhaps annually or bi-annually, to ensure they remain relevant and appropriate. It would make sense to consult when material changes to the Principles have been identified as market expectations evolve over time. We also believe that the Principles must be globally applicable, in line with the proxy advisory firm’s business.

One final note is that these Principles should only apply to those firms that issue vote recommendations to their clients. BlackRock does not consider that all firms which provide governance analysis should be subject to this code of conduct.

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

Yours faithfully,

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[2] See BlackRock’s Comment on Concept Release on the U.S. Proxy System (Release Nos. 34-62495; IA-3052; IC-29340; File No. S7-14-10), October 2010.