



ZMH Corporate Governance Insights.

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BlackRock, Vanguard, and Fidelity Proxy Voting Guideline Changes

Key Takeaways

- **In a review of proxy voting guidelines changes for three of the largest institutional investors, diversity was the only topic addressed by all investors.**
- *BlackRock removed disclosure outlining its views on diversity and related merits to company leadership and performance.*
 - *Vanguard expanded its discussion on diversity and established its framework of how board diversity will be considered in the evaluation of board composition.*
 - *Fidelity replaced references to “women” directors with “gender diverse” directors. Fidelity also renamed a section of its guidelines entitled “Environmental and Social Issues” to “Natural and Human Capital.”*
- **Investors are emphasizing disclosure quality and clarity.**
 - *BlackRock seeks to understand how stakeholders are considered in decision-making and removed the explicit indications of issuing AGAINST votes in instances when disclosures relating to Stakeholder Considerations and Human Capital Management are lagging.*
 - *BlackRock also reemphasized the need for clarity relating to term limits and board tenure.*
- **No material changes to climate-related disclosure requirements as investors still await SEC Final Rules.**
 - *BlackRock acknowledged the convergence/adoption of standards issued by the International Sustainability Standards Board (ISSB), namely International Financial Reporting Standards (IFRS) S1 and S2. However, these were derived from the predecessor frameworks of Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD), both of which were endorsed by BlackRock in previous years.*
- **Only one investor addressed executive pay in a meaningful way.**
 - *Vanguard clarified its approach and expanded discussion around the key components of its evaluation framework:*
 - *Pay and performance alignment;*
 - *Plan structure; and*
 - *Compensation governance – newly identified for 2024.*
- **Minor technical clarifications and changes centered around governance.**
 - *Succession planning – BlackRock clarified that it would vote AGAINST relevant directors if there are significant concerns around the board’s succession plan.*
 - *Shareholder Proposals – BlackRock formally codified its framework for evaluating shareholder proposals.*
 - *Others – Vanguard further clarified policies related to Poison Pills, Advance Notice Provisions, and Exclusive Forum Provisions.*



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BlackRock Proxy Voting Guideline Changes

Board Composition	<p>CEO and Management Succession Planning – Further clarified that where there is significant concern about the board's succession planning efforts, BlackRock may cast a vote against members of the responsible committee or most relevant director.</p> <p>Term Limits and Director Tenure – Further clarified that where boards have adopted corporate governance guidelines regarding committee leadership and/or membership rotation, policy disclosure should be clear.</p> <p>Diversity – Removed a paragraph outlining BlackRock's view and position on diversity.</p>
Climate Disclosure	<p>Reporting Standards – Acknowledged the conversion to standards published by the International Sustainability Standards Board (ISSB) under International Financial Reporting Standards (IFRS) S1 and S2 which build on the frameworks of Sustainability Accounting Standards Board (SASB) and the Task Force on Climate-related Financial Disclosures (TCFD), respectively. As BIS encouraged reporting adherence to SASB and TCFD predecessor frameworks, no change in policy framework.</p>
Miscellaneous	<p>Key Stakeholders and Human Capital Management – Although BlackRock continues to advocate for disclosure regarding DEI approaches, workforce nuances (safety, comp, benefits, talent development, performance management) demographics, and natural capital issues, it no longer explicitly states that it will cast votes against directors if it determines a company is not appropriately considering key stakeholders interests nor if the company's disclosures or practices lag market peers in human capital management.</p> <p>Stakeholder Interests – BlackRock wants companies to disclose how stakeholders are identified and how interests are considered in decision making.</p> <p>Shareholder Proposals – BlackRock included a new summary of its approach to shareholder proposals:</p> <ul style="list-style-type: none">• BIS evaluates each proposal on its merit, focusing on its implications for long-term value creation.• BIS will not support proposals that it believes over-reach into the basic business decisions.• Where a proposal is focused on a material business risk that needs to be addressed and the intended outcome is consistent with long-term financial value creation, BIS will look to the board and management to demonstrate that the company has met the intent of the shareholder proposal.• Where analysis and/or engagement indicate an opportunity for improvement in the company's approach to the issue, BIS may support shareholder proposals that are reasonable and not unduly prescriptive or constraining on management.



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Vanguard® Proxy Voting Guideline Changes

Board Composition	<p>Independence – Vanguard will no longer require majority independence for boards of controlled companies, however, requirement will be maintained for key committees of controlled companies.</p> <p>Diversity – The “Diversity and Qualifications Disclosures” section was folded into “Board Composition” highlighting that funds will look for a “fit for purpose.” Vanguard further clarified its stance on board composition inclusive of board diversity as:</p> <ul style="list-style-type: none">• Boards should reflect diversity of attributes including tenure, skills, and experience.• A board should also, at a minimum, represent diversity of personal characteristics, inclusive of at least diversity in gender, race, and ethnicity on the board.• Boards should take action to reflect a board composition that is appropriately representative, relative to their markets and to the needs of their long-term strategies.• Disclosure of directors’ personal characteristics (such as race and ethnicity) should occur on a self-identified basis and may occur on an aggregate level or individual director level. Disclosure of skills and experience at the director level is expected.• Companies should provide disclosure regarding their process for evaluating the composition and effectiveness of their board on a regular basis, the identification of gaps and opportunities to be addressed through refreshment and evolution, and a robust nomination (and re-nomination) process to ensure the right mix of skills, experience, perspective, and personal characteristics.
Compensation	<p>Vanguard clarified considerations when evaluating executive pay:</p> <ul style="list-style-type: none">• Pay and Performance Alignment – Alignment must be clear when examining incentive targets relative to corporate strategy, and analyzing relative total shareholder return and realized pay over three-years.• Plan Structure – Must be aligned with the company’s stated long-term strategy and should support pay-for-performance alignment. When pay structures are not typical of a market, Vanguard seeks specific disclosure linking the structure to long-term value creation.• Compensation Governance – Boards must have a clear strategy and philosophy on executive pay, utilize robust processes to evaluate and evolve executive pay plans, and implement executive pay plans responsive to shareholders. These matters must be conveyed to shareholders via company disclosures and where pay-related proposals consistently receive low support, boards must demonstrate responsiveness to shareholder concerns.



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Vanguard® Proxy Voting Guideline Changes

Miscellaneous

Shareholder Rights Plans/"Poison Pills" – Vanguard further clarified that it will generally support poison pill structures that are:

- Short-term in nature (typically terms of one year or less).
- Put to a shareholder ratification vote at the next practicable annual meeting and at each subsequent annual meeting while the plan is in place. In cases where this is not the practice, a fund may support a shareholder proposal to adopt such practice.

Advance Notice of Shareholder Proposals – Vanguard further clarified that in addition to providing a notice period between 30 and 120 days prior to the meeting date, and a submission window of at least 30 days prior to the deadline, advance notice provisions must contain reasonable disclosure and ownership requirements that are not overly restrictive or burdensome for shareholders.

Exclusive Forum – Vanguard further clarified that it will generally give companies latitude on organizational matters and will generally support state forum selection proposals to designate state courts in Delaware, or a company's state of incorporation or principal place of business.



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Proxy Voting Guideline Changes

Board Composition	<p>Diversity – Fidelity has updated terminology in its Board Composition policy replacing descriptive references of “women” directors with “gender diverse” directors.</p> <p>No change in the policy framework, Fidelity will continue to oppose the election of certain or all directors if, by way of example:</p> <ol style="list-style-type: none">1. Inside or affiliated directors serve on boards that are not composed of a majority of independent directors.2. There is no gender diversity on the board, or if a board of ten or more members has fewer than two gender diverse directors.3. There are no racially or ethnically diverse directors.4. The director is a public company CEO who sits on more than two unaffiliated public company boards.5. The director, other than a CEO, sits on more than five unaffiliated public company boards.
Miscellaneous	<p>Natural and Human Capital – Changed policy heading for the evaluation of shareholder proposals from “Environmental and Social Issues” to “Natural and Human Capital Issues.” No change in the policy framework, Fidelity will continue to more than likely support proposals that:</p> <ul style="list-style-type: none">• Address a topic that the research has identified as financially material;• Provide disclosure of new or additional information to investors without being overly prescriptive;• Provide valuable information to the business or investors by improving the landscape of investment-decision relevant information or contributing to the understanding of a company’s processes and governance of the topic in question; and• Are realistic or practical for the company to comply with.

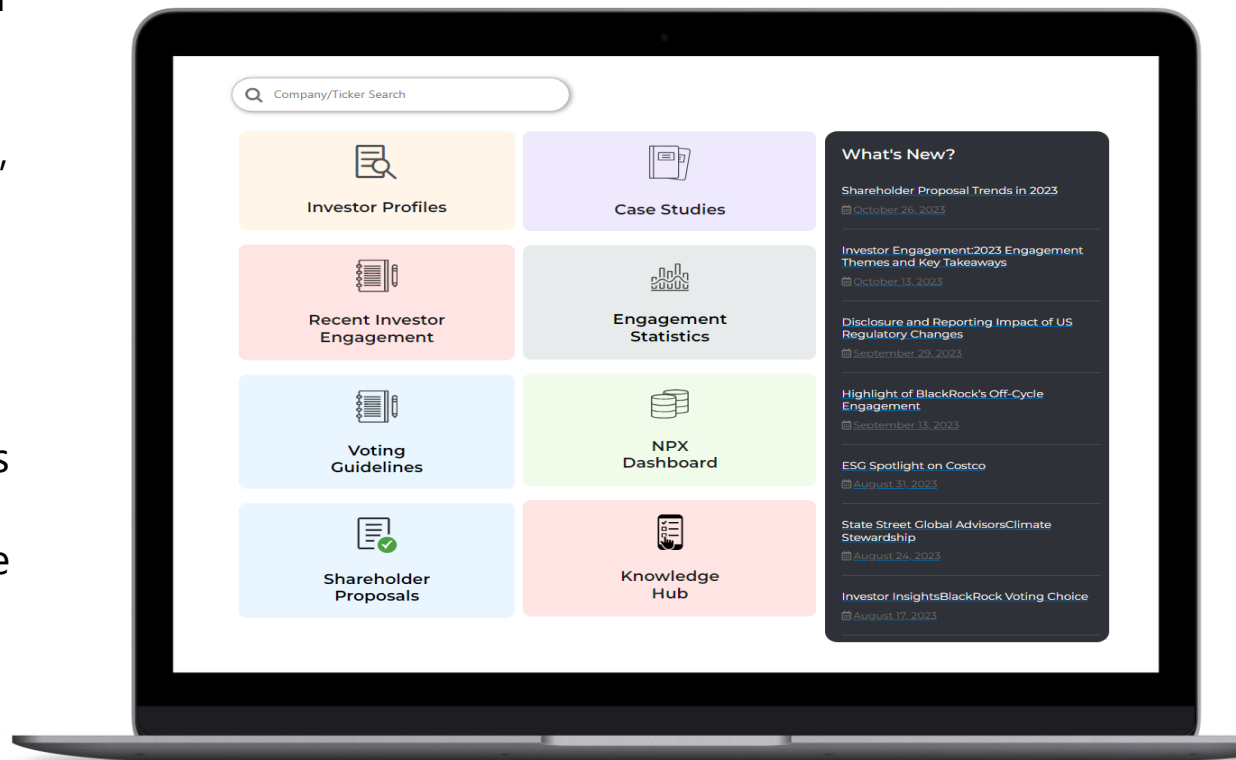


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