



December 14, 2021

Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Submitted online via <http://www.sec.gov/rules/submitcomments.htm>

RE: Enhanced Reporting of Proxy Votes by Registered Management Investment Companies; Reporting of Executive Compensation Votes by Institutional Investment Managers

Dear Ms. Countryman:

BlackRock, Inc. (together with its subsidiaries, “BlackRock”) respectfully submits the following comment letter on the proposed rule, “[Enhanced Reporting of Proxy Votes by Registered Management Investment Companies; Reporting of Executive Compensation Votes by Institutional Investment Managers](#)” (“the proposal”).

BlackRock strongly believes in providing transparency around fund managers’ proxy voting. BlackRock Investment Stewardship discloses voting history on our [website](#) to provide investors and other market participants with greater clarity around our stewardship practices. While we commend the efforts of the Securities and Exchange Commission (“SEC” or “Commission”) to enhance proxy voting disclosure and make Form N-PX more investor-friendly, we are concerned with certain aspects of the proposal, which we highlight below.

For a more fulsome description of BlackRock’s views on the proposal, please see the Investment Company Institute’s (“ICI”) comment letter.¹ We are submitting this letter to the Commission to provide supplementary comments on the proposal, summarized as follows:

- We believe that a more consistent, usable, and accessible Form N-PX is a laudable goal. While we believe categorization as a general matter is consistent with this goal, the proposed categories and subcategories, while reflective of today’s most common proxy proposals, are likely to become

¹ We note, however, our disagreement with the ICI’s recommendation that the SEC require corporate issuers to data tag the description of each ballot matter in their proxy statements. In our view, this data tagging is better done downstream from the issuers by those involved in generating Form N-PX filings who will be more familiar with the available data tags and more accustomed to applying them. In addition, we believe it is inappropriate for issuers to bear the cost and burden of data tagging when they are not the party responsible for filing Form N-PX.

outdated in the future and should be refined.

- We are not supportive of the proposed disclosure of shares on loan and not recalled ahead of a proxy vote, as it (1) does not reflect the rigorous fiduciary analysis that fund managers undertake to decide whether to recall loaned securities and forgo income to the fund, (2) does not account for the limited information available to such managers at the time of a vote, and (3) would impose additional costs on investors while potentially leading to greater investor confusion. These disclosures would provide investors with little useful information other than the demand to borrow a particular security and will not change the analysis of fund managers.

Making Form N-PX More User-Friendly

We support the SEC's efforts to make proxy voting information more accessible and useful, including how the use of an XML-based format would make the N-PX data more consistent, usable, and accessible. As a preparer of Form N-PX, we believe the new XML-based format will greatly reduce our preparation time, and we welcome the change. Additionally, we believe that many of the market participants who use Form N-PX would find it easier to distill relevant information from the new XML-based format. While this data is currently available to investors, its current form makes it difficult for market participants to utilize.² We are concerned, however, with certain aspects of the proposed categorization which we outline below.

Categorization of Proxy Votes

As a general matter, the categorization of proxy votes in Form N-PX would make it easier to analyze N-PX data. In our own proxy voting reporting, BlackRock categorizes votes under specific themes and topics (e.g., by Environmental, Social, or Governance, or by specific topics such as Executive Compensation or Climate Disclosures).

The proposal includes 17 categories along with numerous subcategories. While we are supportive of categorization and, generally, we find these categories to cover the breadth of proposal types seen at shareholder meetings today, we are not supportive of the level of specificity.

- First, we believe that both categories and sub-categories would become stale over time. While today these proposed sub-categories are germane and representative of proposal types seen at most recent shareholder meetings, they are unlikely to incorporate all proposal types that will be relevant in the future. To illustrate this point, if the proposal were issued 20 years ago, the sub-categories likely would look substantially different than they do today. Sub-categories related to climate or diversity, equity, and inclusion would

² As one example, outside of the US, proposal descriptions and ordering will vary based on the entity that sources the information and conducts any necessary translation. For agendas published in a language other than English, there may not be one 'standard' version of the agenda used by each custodian who is providing English translations.

perhaps look the most different, yet these are some of the proposal types that receive the most attention today.

- Second, we believe that the Commission’s proposed venue for addressing the above by including the category “Other,” would likely lead to less comparability over time. Instead of providing flexibility and “future-proofing” of categories, the proposal risks the “Other” category being filled with more proposals that do not neatly fit into stale categories over time.
- Third, the proposal requires the selection of multiple categories or subcategories for a single proxy vote, if applicable. We are not supportive of this aspect of the proposal as we believe it would create inaccurate pictures of fund managers’ voting records across the categories. The double counting that would arise from placing votes in multiple categories would inflate the number of votes taken as a whole and could possibly skew the data across categories.

To address these concerns, we recommend that the SEC (1) use a more limited set of general categories, (2) eliminate and instead provide guidance in place of sub-categories, and (3) eliminate the requirement/ability to categorize votes across multiple categories. Reducing the categories to fewer, top-level buckets would increase their timelessness, render potentially unnecessary use of a catch-all “other bucket”, and make multiple bucketing unnecessary. We recommend categories that are specific enough to make it clear how preparers should categorize ballot items but general enough to not merely reflect the types of proposals that are topical today, forcing incoherent categorization as ballot topics evolve. For example, categories such as “board of directors” or “audit related” are clear, distinct, and likely to continue to be relevant over time while others such as “capital structure” and “security issuance” could be combined. Instead of the proposed sub-categories, we recommend that the Commission provide guidance and illustrative examples in the adopting release of how to apply the categories to evolving ballot proposals over time. Such guidance can more readily be updated or enhanced as necessary. Both of these changes would also decrease the need for fund managers to categorize the same proposal across multiple categories because there would be less potential for duplication.

Lastly, the SEC has proposed that fund managers identify whether matters proposed by security holders are proposals or counterproposals. However, the proposal has not provided a definition of what qualifies as a counterproposal. Fund managers and vendors have traditionally distinguished between matters proposed by management and those proposed by security holders in their regulatory and client reporting. The concept of a counterproposal is one that the SEC would need to define clearly to ensure that fund managers identify such proposals consistently in their reporting.

Quantitative Disclosure and Securities Lending

Securities lending is a well-regulated practice that contributes to capital market efficiency. It also enables funds to generate additional returns for a fund, while

allowing fund providers to keep fund expenses lower. Fund managers delegated the right to proxy voting do so in order to protect and enhance the value of the fund's investments. A fund manager with authority to engage in securities lending and to vote proxies on behalf of the fund must do so consistent with its fiduciary obligations. The decision by the fund manager to recall a security on loan as part of a fund manager's securities lending program in order to vote can be based on an evaluation of various factors, which include, but are not limited to, assessing potential securities lending revenue alongside the potential long-term financial benefit to clients of voting those securities, based on the information available at the time of recall consideration (more on this below). This evaluation may lead a fund manager to choose to leave shares out on loan as the potential lending revenue may be of greater economic value to the fund than the potential vote. However, in certain instances, a fund manager may determine, in its independent business judgment and consistent with its fiduciary duties to act in the best interest of the fund, that the value of voting outweighs the securities lending revenue loss to clients and would therefore recall shares to be voted in those instances.

Put more simply, the generation of lending revenue is of immediate benefit to a fund while the benefit of voting is more difficult to calculate and manifests over a longer period of time. Many proxy votes are decided by wide margins, and the vast majority of companies' shares are not out on loan.³ Therefore, recalling shares on loan does not necessarily change the number of votes cast and in most instances is unlikely to change a vote's outcome.⁴

We disagree with the proposal's assumption that investors would benefit from this disclosure of information about a fund's lending practices. Retail investors are unlikely to use Form N-PX, instead relying on fund websites for more easily understood information about voting practices rather than looking at individual votes. We do not believe the proposal, if implemented, would change this practice. In our view, if implemented, this proposal would instead result in additional costs to investors in exchange for unnecessary and misleading disclosure, which could lead to greater investor confusion, including about the relationship between securities lending and proxy voting.⁵

³ According to data from Markit, only 1.1% of US equities from mutual funds and unit trusts were out on loan for the 12-month period ending October 31, 2021.

⁴ Additionally, it appears that the proposal is based on the premise that shares on loan are not voted, which may not be the case as a borrower has the right to vote the loaned security and typically conveys that right to vote to another investor through a short sale.

⁵ Additionally, the proposal's intent to only count shares as "on loan and not recalled" if the fund manager is able to direct the lending agent to instigate a recall would lead to significant inconsistencies. If two funds with identical positions in a security inclusive of identical amounts currently lent use the same fund manager but one uses a lending agent affiliated with that fund manager and the other chooses to use a third-party lending agent, which the fund manager cannot direct, only the first fund would have to report any shares "on loan and not recalled", while the other fund would not report them. If the intent is to provide transparency to investors into a fund's lending practices, this different treatment seems to run counter to that intent. See Federal Register, Vol. 86, No. 197, p57489.

Additionally, the proposal does not account for a significant structural issue – the record date in the US – that will remain unchanged and that impacts the practicality of recalling loaned securities in order to vote at annual shareholder meetings. In the US, the record date of a shareholder meeting typically falls before the proxy statements are released. For example, the record date for BlackRock’s last annual general meeting was March 29, 2021. The preliminary proxy statement was filed on April 1, 2021 and the definitive proxy statement was filed on April 16th, 2021. Given these sequencing considerations, it is not practicable for a fund manager to evaluate a proxy statement, determine that a vote may have a material impact on a fund, and recall any shares on loan in advance of the record date for the annual meeting. As a result, in most instances, fund managers must weigh, consistent with their fiduciary duty, the long-term benefit of recalling loaned shares in advance of an estimated record date without knowing whether there will be a vote on matters which have a material impact on the fund (thereby forgoing potential securities lending revenue for the fund’s shareholders) or leaving shares on loan to potentially earn revenue for the fund while forgoing the opportunity to vote. For these reasons, we do not believe the proposal would meaningfully change how funds recall on-loan securities for the purposes of voting, including the percentage of shares recalled.

The proposal also fails to adequately measure the revenue impact on funds and investors of recalling shares on loan. The Economic Analysis section⁶ of the proposal contains what we believe is an inherently incorrect assumption on the number of days’ worth of securities lending revenue that should be considered in making such an assessment. It suggests that recalling loaned securities ahead of a proxy vote would not materially impact the income stream for investors in the funds lending their securities because funds could immediately lend their securities again after the record date. However, this assertion is inaccurate. If securities on loan are recalled by some but not all funds, the borrowers of those securities will likely immediately borrow those same securities through new loans from other funds, and the fund that recalled its shares will be unlikely to be able to lend their securities to that original borrower once the record date has passed. As a result, the funds that recalled will have to wait for another loan opportunity to arise to lend the securities (potentially in an allocation queue behind other funds with the same securities available to lend). Therefore, the process of blindly recalling shares to potentially vote in case there might be a matter material to the fund will likely result in investors forgoing a potential lending income stream much longer than the single record day. Alternatively, if all funds recall their securities, borrowers will not be able to source replacement loans which will cause market disruptions in the underlying security. Disruptions could include reduced market liquidity introducing challenges to all investors. In addition, funds that frequently recall shares create supply volatility, which can have much longer-term implications on the lending value of a fund’s assets; this is because borrowers have a choice with respect to which funds they borrow from and have a known preference for stable sources of lendable supply. Accordingly, the decision to recall on-loan securities has broader

⁶ See Federal Register, Vol. 86, No. 197, p57504-p57505.

implications for funds and their investors beyond the immediate loss of potential securities lending revenue.

Instead of the proposal's unnecessary and dilutive changes, and to enhance the information available to fund managers, we recommend the Commission recommend enhancements to the US proxy voting infrastructure as a way to potentially eliminate the time sequencing issue. In many European countries, for example, the applicable record date for voting is after the issuance of the proxy statement and much closer to the vote cut-off date.⁷

Finally, as an operational point, fund custodians are typically the primary source of data on which shares are on loan over a record date; however, the practice of including this information with the proxy ballot currently varies. Accordingly, were the SEC to include disclosure around securities lending on Form N-PX, the SEC would need to ensure all custodians are able to provide this data in order for fund managers to report the figures consistently. Absent a requirement that custodians furnish this data alongside each proxy ballot, the process of determining this information would be highly labor intensive for fund managers and impose increased administrative costs on investors, as each fund manager must determine the settled shares on loan as of the relevant record date for every position that could be voted on by a fund. While larger firms like BlackRock with sufficient technology resources could potentially compile this data, requiring such disclosure may be disadvantageous or overly burdensome for smaller firms.

We appreciate the SEC reviewing our letter on the proposed amendments to Form N-PX and hope our views are constructive as the SEC considers issuing a final rule. Should the Commission or staff have questions about our submission, we are pleased to provide additional information at your convenience. Should you have any questions about our views, please reach out to Robert Dunbar



Sincerely,

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Managing Director, Global Public Policy Group

⁷ For example, in the United Kingdom and Germany the voting record data occurs after the issuance of the proxy statement.