BlackRock Updates Executive Compensation Guidelines and Further Expands Voting Choice for 2023 Annual Meetings

On December 19, 2022, BlackRock released its 2023 U.S. proxy voting guidelines. Among other revisions, the guidelines contain several changes to BlackRock's executive compensation policies that may be of interest to compensation committees of technology and life sciences companies. Key changes include.

- New language indicating that compensation structures should drive outcomes that don't just align pay with company performance, but also with value realized by shareholders
- New language indicating that, where compensation appears excessive relative to either company performance or peer compensation levels, or where an equity compensation plan does not appear to align with shareholder interests, it may vote against compensation committee members
- New guidance with respect to front-loaded equity awards, advocating the use of longer-term vesting and/or meaningful holding periods
- An update to its views regarding special awards, indicating that they may sometimes be appropriate but will be reviewed for magnitude, breadth, and appropriate structure (previous guidelines indicated BlackRock was generally not supportive of such awards)
- Elimination of specific references to ESG and long-term value creation, consistent with changes made more broadly throughout its 2023 guidelines

Compensation committees should take particular note of the new guidelines regarding consideration of shareholder experience and shareholders' interests generally, as these revisions may signal (1) a decreased willingness to support payouts in 2023 based largely on individual or relative performance where a company's stock price was significantly impacted during the performance period, and (2) an increased willingness to vote against compensation committee members where it appears that compensation practices do not align with shareholder interests. In our view, the elimination of ESG and long-term value creation references do not substantively change BlackRock's position with respect to ESG metrics in compensation programs, which should be comparably rigorous and measurable as traditional financial metrics. Rather, they are likely in response to recent criticism regarding its consideration of these matters in its stewardship and voting decisions.

Expansion of Client Voting Choice Platform

Separately, last month BlackRock announced an expansion of its client voting choice platform, its initiative to provide eligible clients the ability to participate in voting decisions (eligible clients to date generally include those invested in index-based strategies in separately managed accounts globally as well as certain pooled vehicles). The expansion further broadens the program beyond these institutional investors to select UK retail holders for the 2023 proxy season to pilot the feasibility broad-based pass-through voting to retail holders. While BlackRock was the first of the "big three" passive index managers to provide choice voting to eligible investors, we wanted to alert our clients that State Street and Vanguard, among others, have quickly followed suit with their own programs now underway.

These structural voting changes are unlikely to significantly impact the voting positions of these index managers in the 2023 proxy season (of BlackRock's $3.8 trillion in eligible assets under management, only $157 billion, or approximately 4%, of newly eligible assets have taken advantage of voting choice since its expansion efforts began in October 2021), but it is important to take note of the potential impact these voting changes may have on support for executive and equity compensation decisions in the longer term. These passive investors have historically been among the most supportive of management proposals – including Say-on-Pay, new equity compensation plans, and director elections. To the extent a meaningful portion of their assets under management ultimately elect to take control of their vote, support levels may change.

Further, to the extent asset owners opting to use client choice voting rely on third-party policies, the influence of the major proxy advisory firms may further increase going forward. For example, as part of its expanded offering, BlackRock is offering clients the option to use several Glass Lewis proxy voting policies, including a new governance-focused policy.

Need Assistance?

If you have any questions regarding these developments or their likely impact on compensation-related voting decisions at your 2023 annual meeting, please contact your regular Compensia point of contact or Hannah Orowitz at (332) 867-0566 or horowitz@compensia.com

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About Compensia

Compensia, Inc. is a management consulting firm that provides executive compensation advisory services to Compensation Committees and senior management.

Offices

Silicon Valley
50 W San Fernando Street
Suite 1350
San Jose, California 95113
408.876.4025

San Francisco
One Embarcadero Center
Suite 2830
San Francisco, California 94111
415.462.2990

Principals

Tom Brown, Chairman
tbrown@compensia.com
408.876.4023

Ralph Barry
rbarry@compensia.com
858.603.2288

Erik Beucler
ebeucler@compensia.com
408.907.4314

Mark A. Borges
mborges@compensia.com
415.462.2995

Jason Borrevik
jborrevik@compensia.com
408.876.4035

Rachel Cohen
rcohen@compensia.com
669.263.9808

Jodie Dane
jdane@compensia.com
415.462.1985

Amanda Feyerabend
afeyerabend@compensia.com
415.462.2988

Aaron Johansen
ajohansen@compensia.com
408.907.4310

Lori Koenig
lkoenig@compensia.com
415.462.0231

Tom Langle
tlangle@compensia.com
408.907.4309

Tom LaWer
tlawer@compensia.com
408.907.4309

Greg Loehmann
gloehmann@compensia.com
408.907.4319

Hannah Orowitz
horowitz@compensia.com
332.867.0566