



November 12, 2019

Submitted via e-mail

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Proxy Process for Funds as Issuers

Dear Ms. Countryman:

BlackRock, Inc. (together with its affiliates, “BlackRock”)¹ appreciates the Securities and Exchange Commission’s (the “SEC”) interest and engagement with the investment management industry on the examination of proxy issues. We are supportive of the ideas put forth by the Investment Company Institute (the “ICI”), the Securities Industry and Financial Markets Association (“SIFMA”) and other investment management institutions. We recognize that the proposals put forth by the various entities span a continuum in terms of the time and effort needed for implementation and have focused our comments on those matters which we believe will be of greatest benefit to the industry and could be readily accomplished by SEC or staff action, as appropriate. Below is a summary of our key focus areas for improving the proxy process and experience for funds and their shareholders.

Executive Summary

Common forms of proxy solicitations undertaken by U.S. registered funds, including mutual funds, closed-end funds, business development companies (“BDCs”) and exchange-traded funds (“ETFs”), include routine election of directors (on an annual basis for exchange listed closed-end funds and BDCs and on an as needed basis for open-end funds and ETFs); fund reorganizations; and changes to fundamental policies. Fund shareholders, and in some cases the adviser, bear significant costs (e.g., in the case of joint proxy statements, this could be millions of dollars) associated with proxy solicitations. The biggest contributors to proxy-related costs include the volume of shareholder accounts, size of proxy materials (i.e., initial print and mail costs), and proxy solicitation costs for non-routine matters. In addition, there are certain matters that currently require a shareholder vote, which we believe may be more effectively addressed through board fiduciary oversight combined with advance disclosure to shareholders.

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.

Key focus areas that we believe the SEC could implement, and that would benefit fund shareholders without causing any harm:

1. Seek ways to reduce initial print, mail and proxy processing costs of a proxy solicitation
 - a. Allow funds to incorporate information by reference in their proxy statements and to exclude certain information (e.g., 5% beneficial ownership table) from the mailed proxy statement which could be made publicly available in the SEC filing or elsewhere.
 - b. We recommend the SEC review the New York Stock Exchange's ("NYSE") framework for setting maximum proxy processing fees charged by proxy service firms, which, in our experience, typically account for almost two-thirds of the overall cost of a routine proxy solicitation.
2. Address certain changes through board fiduciary oversight and advance notice disclosure to shareholders in lieu of a shareholder vote
 - a. Allow funds to change fundamental policies, including those required under Section 13 of the Investment Company Act of 1940 (the "1940 Act") by seeking board approval, including approval by a majority of the fund's independent directors, and providing 60 days-notice to shareholders, similar to Rule 35d-1 under the 1940 Act (i.e., the "names rule"). In particular, this would benefit older funds by picking up fundamental investment restrictions that may have been based on, for instance, blue sky laws that are no longer in effect. While we believe a majority of independent director voting standard to be sufficient, the SEC could also consider a heightened board voting standard (e.g., two-thirds of the independent directors) if deemed more protective for fund shareholders.
 - b. Allow for affiliated fund reorganizations without a shareholder vote where the affiliated target and acquiring funds have different fundamental policies and/or are overseen by different boards, if the other criteria under Rule 17a-8 under the 1940 Act are met. Similar to the changes discussed above, an affiliated fund reorganization where the advisory contract is not materially different and/or the distribution fee is not increasing could be subject to board approval coupled with advance notice to fund shareholders instead of requiring a shareholder vote.
3. Focus on enhancing methods to capture the retail vote on non-routine items
 - a. Eliminate the non-objecting beneficial owner ("NOBO")/objecting beneficial owner ("OBO") distinction so funds and their proxy solicitors can communicate directly with all shareholders;

- b. Amend the “notice and access” rules to allow proxy cards to be included with the mailing of the initial notice of availability of proxy materials;
- c. Encourage modern methods of interacting with shareholders – for example, e-delivery of proxy materials with a link to the website where shareholders can vote, as well as the use of text messaging for reminders to vote.

Recommendation I: Seek ways to reduce the initial print, mail and proxy processing costs of a proxy solicitation

Some of the biggest drivers of costs (in particular for routine proxies where proxy solicitation is not required due to the broker discretionary vote) are (1) initial print and mail costs and (2) processing fees charged by proxy service firms to reimburse broker-dealer firms for processing proxy materials for investors holding the fund’s shares in “street name.” Generally, in our experience, the initial print and mail costs account for approximately 30-35% of the overall proxy cost with substantially all of the remaining cost attributable to fees charged by the proxy service firm.

We believe that allowing funds to incorporate information by reference in their proxy statements and to exclude certain information from the mailed proxy statement which could otherwise be made publicly available by some other method would benefit funds and their shareholders. While this will not impact the high proxy processing costs charged by the proxy service firm, at least it will help reduce the overall print and mail costs and may help shareholders focus more directly on the matter being voted on. Often the lengthiest portion of a routine proxy statement if jointly shared by more than one fund, is the 5% beneficial owner list. This information could be made available to shareholders by being included as an exhibit to the proxy statement filed with the SEC, or posted to the fund’s website, without being included in the proxy statement delivered to shareholders. In our experience, the 5% beneficial owner list has comprised 30%-47% of the total page count of joint fund proxy statements.

Away from efforts to reduce print and mail costs, we recommend that the SEC review the NYSE’s framework for setting maximum proxy processing fees charged by proxy service firms, which typically account for almost two-thirds of the overall costs of a routine proxy solicitation.

Recommendation II: Address certain changes through board fiduciary oversight and advance notice disclosure to shareholders in lieu of a shareholder vote

We believe that shareholder approval should be reserved for matters that are critical to a shareholder’s interest. There are two areas worth considering for change.

Eliminate the requirement for shareholder approval to change a fund’s fundamental policies

First, we propose that the SEC consider eliminating the requirement for shareholder approval to change a fund's fundamental policies, including those fundamental policies required by Section 13 of the 1940 Act,² and adopt an alternative approach. One such approach could be majority board approval, including approval by a majority of the independent directors, coupled with a 60 day-notice period to allow shareholders to "vote with their feet." While we believe a majority of independent director voting standard to be sufficient, the SEC could also consider a heightened board voting standard (e.g., two-thirds of the independent directors) if deemed more protective of shareholders.

It is not uncommon for older funds to have fundamental policies that are more restrictive than newer funds. This may create inconsistencies among affiliated funds that have similar investment objectives and strategies, and we believe could potentially place older funds on unfair footing with newer funds that have more permissive language. For example, certain fixed-income funds have fundamental policy language that precludes the fund from participating in an interfund lending program, whereas other affiliated funds with more modern language would be able to participate.

Currently, the only way that an older fund can modernize its fundamental policies is to seek shareholder approval and incur very expensive proxy costs in doing so. In our experience, it is challenging to get shareholders to vote for fundamental policy changes that can be technical in nature and do not materially alter the fund's overall investment strategy or risks. Such proxy solicitations have resulted in numerous adjournments and additional proxy solicitation costs. Fund shareholders would benefit from such changes being made through board oversight and advance notice disclosure, rather than having such fundamental policy changes be subject to high proxy costs and execution risk and/or not be made at all. If shareholders were unsupportive of a change, they would have the opportunity to redeem their shares prior to the implementation of such change.

Money market funds are particularly good candidates to be exempted from the shareholder vote requirement to change fundamental policies for several reasons. First, money market funds are subject to detailed portfolio policies pursuant to Rule 2a-7 under the 1940 Act and as a result changes to the fund's fundamental policies are typically less impactful from the fund's investment strategies and risks perspective than in the case of non-money market funds. Second, money market funds may be held as short-term cash vehicles and have a relatively large number of shareholders who are even less likely to vote than non-money market fund shareholders. Third, money market funds used as cash sweep vehicles face certain unique operational challenges from a proxy process perspective and thus can be operationally more complicated to reach shareholders than a non-money market fund proxy solicitation. The difficulty of achieving shareholder participation for money market funds has been experienced even in a routine election of

² Section 13 of the 1940 Act requires shareholder approval when a fund, except as stated in the fund's recital of policy, borrows money, issues senior securities, underwrites securities issued by others, sells real estate or commodities, or makes loans to other persons, deviates from its concentration policy, or changes its classification from diversified to non-diversified.

directors, where the shareholder meeting for a money market fund had to be adjourned to undertake additional solicitation (this rarely occurs for a routine proxy).

Limit when a shareholder vote is required for affiliated fund reorganizations

Second, we propose the SEC consider limiting when a shareholder vote is required for affiliated fund reorganizations under Rule 17a-8 under the 1940 Act.³ We propose amending the rule to require a shareholder vote for an affiliated fund reorganization in the case where the advisory contract is materially different, and/or there is a proposed increase to the distribution fee. In contrast, if neither the advisory contract nor distribution fee are changing in a way that disadvantages shareholders, then differences in the funds' fundamental policies or board of directors for an affiliated fund reorganization alone should not trigger a shareholder vote requirement and could be addressed through board approval coupled with adequate advance notice disclosure to shareholders. We believe that affiliated fund reorganizations can offer benefits to both target and acquiring fund shareholders, including portfolio management and administrative efficiencies, product differentiation and scale benefits (e.g., greater liquidity of fund shares in the case of closed-end funds), and should be encouraged, subject to Board approval, without incurring the high cost and hurdles relating to the proxy solicitation process.

Recommendation III: Focus on enhancing methods to capture the retail vote on non-routine items

Proxy solicitors should have the greatest range of tools and strategies possible to capture the retail shareholder vote, which is particularly critical in the case of proposals that will materially impact the interests of all fund shareholders, such as a hedge fund activist's proposal to open-end or liquidate a closed-end fund. Focusing on ways to more effectively capture the retail shareholder vote on non-routine matters will not only help reduce proxy costs and the length of time required to achieve quorum, it also ensures that matters being approved are in the best interest of all fund shareholders. A fund's retail shareholder base can be quite diverse, and it's important that the broadest set of options is made available to help facilitate a successful proxy campaign. Increasing retail participation has been a topic of industry discussion for years. While there is no "silver bullet," below are recommendations that we believe the SEC could address through rule-making and/or additional guidance, as appropriate, that could help make an impact.

³ Rule 17a-8 under the 1940 Act allows for the reorganization of affiliated funds. Under the rule, shareholder approval is not required if certain conditions are met: (a) no policy of the target fund that could not be changed under Section 13 of the 1940 Act without a vote of a majority of its outstanding voting securities is materially different from a policy of the acquiring fund; (b) no advisory contract of the target fund is materially different from that of the acquiring fund; (c) the independent directors of the target fund who were elected by shareholders will comprise a majority of the independent directors of the acquiring fund; and (d) any distribution fees under a Rule 12b-1 plan payable by the acquiring fund are no greater than the distribution fees payable by the target fund.

- Eliminate the NOBO/OBO distinction so that funds and their proxy solicitors can communicate directly with all shareholders. This would be a direct cost benefit to the funds (i.e., lower phone solicitation expenses) and may help increase the overall vote by allowing the proxy solicitor to focus on reaching the largest shareholders within the entire shareholder population (rather than just the NOBO population). In at least one recent fund proxy campaign, the OBO list was comprised of over 80% of fund shareholders, which resulted in multiple adjournments to achieve quorum.
- Allow for the inclusion of the proxy card with the initial mailing of a Notice of Internet Availability for funds that opt to use “notice and access.” “Notice and access” is an effective way to save print and mail costs but it is rarely used in a non-routine proxy due to the likelihood of a lower shareholder participation rate versus more traditional methods where the proxy card is permitted to be included. Under the current rule, a fund relying on the notice and access model cannot send the proxy card with the initial notice but instead must wait 10 calendar days after sending the notice to send shareholders the proxy card. Alternatively, the proxy card may be accessed electronically. Given the challenges of retail shareholder participation, allowing for the inclusion of a proxy card along with the initial notice will make it that much easier for shareholders to vote if they are so inclined.
- Encourage greater use of modern forms of communication to receive proxy materials, reminders and access to a link to vote. Once again, a retail shareholder base can be quite diverse, and it’s important that the broadest set of options is made available to proxy solicitors to help facilitate an expeditious and successful proxy campaign. Some shareholders may prefer a paper proxy, while other shareholders may be more receptive to voting if they are provided a reminder and link by e-mail or text message.

In addition to proposals from ICI, SIFMA and others, we believe the above are some of the key takeaways for improving the proxy voting process. While we think all of the above points can benefit shareholders, even implementing just some of the changes will have a clear and definite benefit.

We thank the Commission for providing BlackRock the opportunity to express our support for your efforts and to provide our comments and suggestions on this important matter. Please contact the undersigned if you have any questions or comments regarding BlackRock’s views.

Sincerely,

Barbara Novick
Vice Chairman of BlackRock

Janey Ahn
Managing Director, Legal & Compliance

cc:

The Honorable Jay Clayton
Chairman
Securities and Exchange Commission

The Honorable Robert J. Jackson Jr.
Commissioner
Securities and Exchange Commission

The Honorable Hester M. Peirce
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