India-UK Financial Partnership

RESPONSIBLE SHAREHOLDER ENGAGEMENT
AN INDIAN STEWARDSHIP CODE

NOVEMBER 2016
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FOREWORD

Following agreement in June 2014 by the Indian Finance Minister and the UK Chancellor of the Exchequer to deepen financial services links between India and the UK, they launched the India-UK Financial Partnership (IUKFP) and asked us to drive forward the initiative.

The two ministers reviewed progress in January 2016 and renewed the mandate of the Partnership as the leading forum for financial services cooperation between India and the UK.

We are pleased to lead the Partnership and are supported by senior private sector practitioners from both countries and assisted by project management teams at Kotak Mahindra Bank in India and The CityUK in London. The Indian and UK governments and regulators have also demonstrated their commitment to the Partnership by joining us.

We are together developing policy insights and recommendations on a variety of topics that are aligned to the Government of India’s reform priorities.

This policy discussion paper is one of several which have been written by experts in India and the UK and we are very grateful to those who have contributed their insights to the paper and who have given their time so generously to the work of the Partnership. We look forward to discussing our ideas in detail and to participating in an ongoing dialogue with policymakers in India and the UK.

Uday Kotak
Executive Vice Chairman and Managing Director, Kotak Mahindra Bank and Co-Chairman, India-UK Financial Partnership

Sir Gerry Grimstone
Chairman, Standard Life and Deputy Chairman and Senior Independent Director, Barclays and Co-Chairman, India-UK Financial Partnership
Good corporate governance and effective investor stewardship are cornerstones of sustainable corporate success. Institutional investors also have a fiduciary duty to appropriately represent the interests of their investor base (many of whom are small investors) through active engagement with their portfolio companies. In addition, understanding the views of shareholders helps to inform boards of directors in taking decisions to deliver long-term value for the benefit of investors, employees and society.

This paper focuses on effective investor stewardship. It sets out a series of recommendations to progressively develop an Indian Stewardship Code that can be adopted by both public and private mutual funds, insurance companies and foreign investors. The Code will build upon the significant progress in corporate governance and trends in increased investor voting in India to migrate towards a “voting plus” and “comply or explain” framework which is the next step in responsible shareholder engagement. It is believed that this will encourage a constructive and mutually beneficial two-way dialogue between shareholders and the boards of listed Indian companies.

The paper does not make any specific recommendations as to the content of an Indian Stewardship Code because that is something for the Indian Government and regulators to evolve in consultation with key stakeholders. However, it does highlight the importance of adopting an Indian Stewardship Code and, drawing lessons from the UK experience, recommends a process that can be followed to maximise stakeholder involvement. The paper also discusses the experience of the UK in implementing its Stewardship Code and how effective stewardship by mutual funds and life insurance companies is essential to ensure that they not only fulfil their fiduciary duty towards managing small investors’ funds but also retain the continued confidence of retail investors in capital markets as well as promoting good corporate governance practices by boards. It is believed that the recommendations in this paper will further strengthen the alignment of interests between investors and the boards of the companies in which they invest and lend conviction to the growing confidence in India’s economy and capital markets.
Introducing an Indian Stewardship Code would be a logical evolution of the improved corporate governance and stewardship environment in India. This paper recommends that this could be voluntary and based on the “voting plus” and “comply or explain” framework that has worked well with the UK Stewardship Code.

An important element of an Indian Stewardship Code would be to make it available to all institutional investors so the progress that has been seen in the voting patterns of domestic mutual funds would be extended to other institutional investors in India.

The Stewardship Code in the UK, which is principles based and supported by guidelines, is viewed as a success and a good template to evaluate as over 300 institutional investors have voluntarily signed up to it. It has increased the dialogue between institutional investors and companies and improved the ability of investors to perform their stewardship responsibilities.

The table below highlights some of the key issues faced in enhancing responsible shareholder engagement and stewardship in India and the potential impact of a well-designed Stewardship Code.

### Issues
- Strengthening ability of Indian investors to perform their fiduciary duties
- Maintaining and strengthening the confidence of Indian retail investors in India’s capital markets
- Current SEBI regulations apply only to Indian mutual funds which are required to provide voting transparency
- Enabling the boards of Indian companies to take decisions that take the views of shareholders into account
- Many major markets outside of India have now implemented or started to develop a stewardship code
- A significant proportion of listed equity in India is owned by foreign international investors, and it is therefore important that they support the Code

### Benefits of an Indian Stewardship Code
- Investors will be motivated to vote more frequently
- Investors will be encouraged to have a broader engagement with companies and make better informed voting decisions
- The transparency and accountability of mutual funds and other investors on the stewardship of the savings entrusted to them for investment will be progressively improved
- The quality of investment decisions will be improved and this will be reflected in returns to savers
- The Stewardship Code should be available to all institutional investors in Indian equities and be based on a voluntary “comply or explain” approach
- Responsible shareholder engagement based on an open and ongoing dialogue will enable boards to hear at first hand the views of shareholders on a wide range of issues
- Boards will be better informed and can improve their understanding of shareholders voting decisions
- By adapting global best practices, and drawing on the experience of the successful UK Stewardship Code, India is well-positioned to become one of the leaders in responsible shareholder engagement
- A high level Stewardship Code Steering Committee to oversee the preparation of the Indian Stewardship Code will ensure views of all regulators and stakeholders are considered
- The Stewardship Code Steering Committee will oversee the preparation of an Indian Stewardship Code that will apply to all major investors in Indian listed companies, including foreign investors
- SEBI will monitor as part of its annual review the trend of foreign investors who are signatories to the Indian Stewardship Code
2.0 CONTEXT

2.1 RESPONSIBLE SHAREHOLDER ENGAGEMENT IN INDIA

2.1.1 In response to recent initiatives of the Securities and Exchange Board of India (SEBI) and the new Companies Act 2013, corporate governance and shareholder engagement in India have improved significantly. As the chart below demonstrates, domestic mutual funds have shown a significant increase in voting and have recently voted on 92% of resolutions as compared to only 60% in 2013. The Indian Stewardship Code represents the next step in this evolution to broaden this engagement into a “voting plus” framework and extend these benefits to other institutional investors in India.

2.1.2 The development of responsible shareholder engagement has seen the following milestones. In 2010, following the Satyam Computer Services scandal, SEBI required all Indian mutual funds to vote and disclose annually how they have voted on shareholder resolutions. This prompted a number of funds to begin voting on shareholder resolutions at AGMs but others remained passive and continued to abstain from voting.

2.1.3 In order to improve transparency as well as encourage mutual funds and asset management companies to diligently exercise their voting rights in the best interest of unitholders, SEBI has mandated asset management companies to record and disclose specific rationale supporting their voting decision (whether for, against or abstain), publish a summary of the votes cast across all its investee companies along with break-down in terms of total number of votes cast in favour, against or abstained from, and disclose votes cast on their websites on a quarterly basis, in addition to such disclosures in their annual reports.

2.1.4 Further, on an annual basis, asset management companies are also required to obtain an auditor’s certification on the voting reports disclosed. The board of such companies and the trustees of mutual funds are required to review and ensure that these companies have voted on important decisions that may affect the interest of investors and the rationale recorded for vote decision is prudent and adequate.

2.1.5 To strengthen participation at meetings, with the introduction of the new Companies Act 2013, the quorum required at general meetings was increased. Under the Companies Act 1956, the quorum was 5 members present personally, irrespective of the total number of members of the company. The Companies Act 2013 has increased this number, based on the total members of the company, as follows:

<table>
<thead>
<tr>
<th>Number of Members in the Company</th>
<th>Quorum Requirement</th>
</tr>
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<tbody>
<tr>
<td>Less than 1000 members</td>
<td>5 members present personally</td>
</tr>
<tr>
<td>More than 1000 members and up to 5000 members</td>
<td>15 members present personally</td>
</tr>
<tr>
<td>More than 5000 members</td>
<td>30 members present personally</td>
</tr>
</tbody>
</table>

2.1.2 The development of responsible shareholder engagement has seen the following milestones. In 2010, following the Satyam Computer Services scandal, SEBI required all Indian mutual funds to vote and disclose annually how they have voted on shareholder resolutions. This prompted a number of funds to begin voting on shareholder resolutions at AGMs but others remained passive and continued to abstain from voting.
2.1.6 To help improve participation in decision-making, SEBI mandated the introduction of electronic voting (e-voting) at all listed companies. This enabled the votes of institutional investors to be counted even if the investors were not present at the shareholder meeting. Further, e-voting is based on one share one vote, as against the earlier practice of voting on a show of hands wherein one person has one vote, irrespective of shareholding.

2.1.7 Also, SEBI recently replaced the listing agreement for listed companies with binding legal regulations, known as the SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015. These regulations are more stringent than provisions laid down in the Companies Act 2013 and in the case of a ‘material’ transaction by a listed company with a ‘related party’, all related parties of the company are prohibited from voting on such a resolution to approve such a transaction, irrespective of whether the entity is a related party to the particular transaction or not.

2.1.8 This, therefore, necessitates the requirement of approval by the requisite majority from ‘public shareholders’, resulting in the increase in the voting power of minority and public shareholders, and their power in approving decisions and activities of the company.

2.1.9 Listed companies are also currently mandatorily required to set up an investor grievance committee and put in place a whistle blower policy – all measures which help improve the ability of minority and public shareholders to raise and redress their concerns.

2.1.10 SEBI has prescribed a format for voting results which is required to be submitted by all listed companies for each resolution put up for member approval. This format is detailed and includes division between voting by promoter and promoter group, public institutions, and public non-institutions. Additionally, under each category, details are to be provided based on the mode of voting, i.e. e-voting, poll, and/or postal ballot. The voting format also requires disclosure of whether the promoter / promoter group is interested in each individual agenda / resolution.

2.1.11 An Indian Stewardship Code would be the logical next step to build upon the progress made. As the table below demonstrates, many major markets globally have now implemented or started developing a Stewardship Code.

<table>
<thead>
<tr>
<th>Countries With Stewardship Codes [source]</th>
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<tbody>
<tr>
<td><strong>Existing Codes</strong></td>
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<tr>
<td>Canada</td>
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<tr>
<td>Hong Kong</td>
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<tr>
<td>Italy</td>
</tr>
<tr>
<td>Japan</td>
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<tr>
<td>Malaysia</td>
</tr>
<tr>
<td>The Netherlands</td>
</tr>
<tr>
<td>South Africa</td>
</tr>
<tr>
<td>Switzerland</td>
</tr>
<tr>
<td>Taiwan</td>
</tr>
<tr>
<td>United Kingdom</td>
</tr>
<tr>
<td><strong>Codes Under Development</strong></td>
</tr>
<tr>
<td>Brazil</td>
</tr>
<tr>
<td>Kenya</td>
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<tr>
<td>Korea</td>
</tr>
<tr>
<td>Singapore</td>
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<tr>
<td>Thailand</td>
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2.2
THE UK STEWARDSHIP CODE

2.2.1 In 2009, in response to the financial crisis, the British Prime Minister commissioned Sir David Walker to examine board practices at UK banks and other financial institutions. One of the key themes of Sir David’s report was that active engagement with boards of directors remains a responsibility of shareholders and he recommended the development of a Stewardship Code to which institutional investors could subscribe.

2.2.2 In 2010 the Financial Reporting Council (FRC) published the world’s first Stewardship Code with the aim of promoting the long-term success of companies in such a way that the ultimate providers of capital also prosper. It closely mirrored a Statement of Principles regarding the responsibilities of institutional shareholders that was first published by the well-respected Institutional Shareholders Committee.

The Principles of the UK Stewardship Code

So as to protect and enhance the value that accrues to the ultimate beneficiary, institutional investors should:

1. publicly disclose their policy on how they will discharge their stewardship responsibilities. The Code explains that stewardship activities include monitoring and engaging with companies on matters that include strategy, risk, performance and corporate governance. The Code emphasises that the policy should disclose how application of stewardship enhances and protects value for the ultimate beneficiary or client.

2. have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed. The Code indicates that institutional investors should have, and publicly disclose, a policy for identifying and managing conflicts of interest. It goes on to state that the aim of the policy should be the taking of ‘all reasonable steps’ to put the interest of the client or beneficiary first.

3. monitor their investee companies. The Code states that ‘effective monitoring is an essential component of stewardship’. Institutional investors are urged to undertake a number of activities including keeping abreast of corporate performance, satisfying themselves that the company’s leadership is effective and considering the quality of the company’s reporting.

4. establish clear guidelines on when and how they will escalate their stewardship activities. The Code suggests that these guidelines should cover the circumstances in which the institutional investor will actively intervene. It states that initial discussions should take place on a confidential basis but if a company does not respond constructively then institutional investors should consider whether to escalate their action. For example, by meeting the chairman or other board members, or speaking at AGMs and other shareholder meetings.

5. be willing to act collectively with other investors where appropriate. Collective engagement is considered to be most appropriate at times of significant stress, or where the risks posed threaten to destroy significant value. Under the Code’s provisions, institutional investors should disclose their policy on collective engagement, including the kind of circumstances in which the institutional investor would consider acting collectively.

6. have a clear policy on voting and disclosure of voting activity. The Code makes clear that institutional investors should seek to vote all shares held and should not automatically support the board. The Code provides that they should disclose publicly their voting records, whether they use proxy voting advisory services and their approach to stock lending.

7. report periodically on their stewardship and voting activities. The Code stipulates that asset managers should account regularly to their clients or beneficiaries how they have discharged their responsibilities. An increasing number of leading UK institutional investors publish annual reviews of their stewardship activities, which are available on their websites. (See Appendix)

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1 The UK Stewardship Code, September 2012
2.2.3 In 2012 the FRC published the second edition of the UK Stewardship Code, which remains in force. It pinpointed that the primary responsibility for stewardship rests with the board of a company but recognised that investors play an important role in holding the board to account for its responsibilities. The Stewardship Code is directed at institutional investors – both asset owners and asset managers. It is not a rigid set of rules; rather, it comprises seven “comply or explain” principles, with supplementary guidance, that set out the stewardship responsibilities of institutional investors. In the preamble to the UK Stewardship Code, the FRC emphasised that stewardship is more than just voting. Rather, it includes monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance, including culture and remuneration. The UK Stewardship Code is reviewed biennially by the FRC and now has over 300 institutional investors as signatories.

2.2.4 The UK Stewardship Code has led to improvements in the quality of engagement between investors and companies. That said, in January 2016 the FRC, whilst acknowledging that ‘a culture of stewardship will take time’, indicated that ‘action is needed to ensure appropriate momentum is maintained in implementing the Stewardship Code’, because of concerns that the reporting of a number of signatories demonstrates that they are not following through on their commitment to the Stewardship Code.²

2.2.5 To enable them to fulfil their responsibilities under the UK Stewardship Code many of the larger institutional investors have dedicated governance and stewardship teams, who typically have responsibility for voting their clients shares, engaging responsibly with their investee companies about environmental, social and governance (ESG) matters and reporting on their websites and to their clients about the activities they have undertaken on their behalf.

² Financial Reporting Council, Developments in Corporate Governance and Stewardship 2015
3.0 THE UK EXPERIENCE OF A STEWARDSHIP CODE

3.1.1 Responsible shareholder engagement lies at the heart of the UK Stewardship Code. Topics discussed at engagement meetings between the companies and the major shareholders are varied. They typically cover topics such as corporate strategy, corporate performance, board composition and performance, succession planning, executive remuneration, audit and risk, corporate culture and corporate social responsibility (CSR) issues. The meeting formats are also varied. Some companies have annual town-hall meetings, which are typically attended by up to 25 major shareholders. At these meetings there are usually presentations by not only the chairman of the board but also by the chairmen of the board committees. The presentations are followed by question and answer sessions. Other companies hold regular 1:1 meetings between their chairman and the company’s larger shareholders.

3.1.2 The engagements are generally confidential and conducted in an environment of mutual trust. They enable a dialogue to take place in order to ensure there is a mutual understanding of objectives and they provide a good confidential channel for investors to ask questions on issues of concern for them and to convey their views on what they should like the board to do on specific matters. In exceptional situations the shareholders will write to the company to confirm the views they have expressed. The engagements also provide a forum for the chairman to ask questions of the shareholders in order to glean their views and thereby enhance the ability of the chairman and the board to take informed decisions that are aligned with the views and interests of the shareholders.

3.1.3 In 2014, the UK’s Investor Forum was launched with the purpose of ‘positioning stewardship at the heart of investment decision making by facilitating dialogue, creating long-term solutions and enhancing value’ and creating an effective model for collective engagement with UK companies is one of its objectives. In March 2016 it announced that it had secured a three-year funding commitment from leading investors and that it had the endorsement of the UK Government for its values and objectives.

3.1.4 In addition, under the UK Stewardship Code, institutional investors are encouraged to not only vote their clients shares but also communicate any governance concerns to investee companies and escalate their concerns – for example, by attending and speaking at AGMs – if these are not being addressed effectively. In practice most major institutional investors vote their shares by proxy and disclose on their websites how they have voted at AGMs and other shareholder meetings. Some disclose this information on the date of the AGM or even in advance of it but most do so after the AGM – often after several months have elapsed.

3 Financial Reporting Council, Developments in Corporate Governance and Stewardship 2015
4 The Investor Forum: www.investorforum.org.uk
5 The Investor Forum, press release, 14 March 2016
3.0 THE UK EXPERIENCE OF A STEWARDSHIP CODE

3.1.5 Responsible shareholder engagement provides the boards of UK companies with valuable insights on the matters discussed, which helps to inform discussions and decisions taken by boards, who recognise that such engagement is an important and effective way of ensuring an alignment of interests between boards and their shareholders. Also, it often provides the basis for a long-term relationship based on mutual trust, which can be very beneficial for boards when they are seeking the support of their shareholders, for example, in the face of a hostile takeover or when they are seeking to raise new capital on attractive terms.

Sports Direct – Example of Stewardship in Action

Sports Direct International is the UK’s largest sporting goods retailer. Its shares are listed on the London Stock Exchange. Its Founder and Chief Executive, Mike Ashley, owns 55% of the issued ordinary shares. Sports Direct corporate governance has attracted criticism from a variety of sources including its independent shareholders, trade unions and the UK Parliament’s Business, Energy and Industrial Strategy Committee. Shareholder engagement at Sports Direct began soon after its IPO in 2007. Institutional investors have engaged unilaterally and collectively. Since July 2015 the Investor Forum has been engaging with Sports Direct’s Board on behalf and alongside its members, who represented 33% of the independent shareholders.6

At Sports Direct’s AGM on 7 September 2016 the resolution to re-elect the Chairman was not approved by a majority of the independent shareholders. Also, a number of institutional investors escalated their engagement in accordance with provisions of the Stewardship Code and called for an independent review of its corporate governance. On 20 September 2016, Sports Direct announced that “Having given careful consideration to concerns raised by independent shareholders, facilitated by the Investor Forum”7 it would undertake a review of corporate governance led by an independent party. Further announcements are anticipated in due course.

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7 Sports Direct International plc: RNS 20 September 2016
4.0 AN INDIAN STEWARDSHIP CODE

4.1 An Indian Stewardship Code will strengthen the ability of Indian shareholders to perform their fiduciary duties, improve the relationship between the boards of Indian companies and their shareholders and help to foster shareholder loyalty. By adopting an Indian Stewardship Code and the “comply or explain” approach, investors will be motivated to vote more frequently and have a broader and more constructive engagement with companies. The limited number of independently owned asset managers and fact that most asset managers are part of conglomerates with multiple businesses increases the requirement for a voluntary but well understood and documented code.

4.2 An Indian Stewardship Code through its “voting plus” approach, and the responsible engagement undertaken in accordance therewith, will also improve the accountability of Indian boards to their shareholders. It will not only enable shareholders to ask questions constructively about matters disclosed in the annual reports of Indian companies but will also allow the boards of Indian companies to explain more fully than otherwise the information contained in the annual reports. Additionally, it will help to inform voting decisions made by shareholders in Indian companies. It will provide an opportunity for Indian boards to explain to shareholders in appropriate detail and depth the reasons why shareholders should support its recommendations, especially on contentious resolutions, at AGMs and other shareholder meetings.

‘Company Directors should….

• facilitate engagement with shareholders, and in particular institutional shareholders such as asset managers and asset holders, based on open and ongoing dialogue about their long-term concerns and investment objectives

• provide information, in the context of corporate reporting and ongoing shareholder engagement, which supports shareholder understanding of company strategy and likely long-term creation of value, including agreeing a range of performance metrics relevant to the company.’

The Kay Review, July 2012

4.3 An Indian Stewardship Code will help to inform discussions in Indian boardrooms and thereby improve the quality of decision-making. By hearing first-hand the views of shareholders on strategy, corporate governance and other relevant matters, the boards of Indian companies will be able to take them into account in their deliberations and decision-taking on issues such as mergers and acquisitions, and dividend policy as well corporate governance and social responsibility. Also, responsible shareholder engagement will provide a channel for shareholders in Indian companies to explain, when appropriate, why they did not or will not support the board’s voting recommendations at AGMs or other shareholder meetings. In short, it will help to ensure an alignment of interests between the company’s board and its shareholders.

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*The Kay Review of UK Equity Markets and Long-Term Decision Making, Final Report, July 2012*
4.4
An Indian Stewardship Code will improve the quality of investment decisions by shareholders in Indian companies. Increasingly, investors are integrating environmental, social and governance issues as part of their stock selection processes. Responsible shareholder engagement will assist their understanding of the factors that the boards of Indian companies have taken into account and reduce the risk of making wrong assumptions.

4.5
It is emphasised that it is envisaged that the adoption of an Indian Stewardship Code will represent the start of a journey over a period of several years, during which its provisions will be progressively complied with, in an orderly and accountable manner. This approach to its adoption will enable institutional investors and companies to make plans to comply with the Code’s provisions and consequences in an efficient manner.

4.6
In terms of the specific process to be followed to ensure an effective Stewardship Code, it is recommended that the Ministry of Finance endorse the concept and then have a broad consultation process with all relevant regulators (such as SEBI, IRDA, PFRDA and RBI) and stakeholders to build consensus on the key principles such as “voting plus” and “comply or explain”. The process would require the Ministry of Finance to:

- Commit to the development and adoption of an Indian Stewardship Code that will not only adapt emerging best global practices, in general, and as reflected in the UK Stewardship Code, in particular, but also build on the considerable progress that has been achieved in improving Indian corporate governance.
- Proceed to set up a high-level Stewardship Code Steering Committee (‘the Steering Committee’) to oversee the preparation for adoption of a “comply or explain” Indian Stewardship Code for all major institutional investors in Indian listed companies, including foreign international investors, some of whom may require persistent persuasion and may prefer to lend their support by way of a letter of support. In addition to Ministry representation, the Committee should comprise senior representatives from SEBI, IRDA, PFRDA, RBI and the Indian institutional investment and corporate communities.
- Set up a standing Shareholder Engagement & Stewardship Guidelines Committee (‘the Guidelines Committee’) comprising senior representatives from the institutional investment community and business to advise SEBI on the development of best practice Shareholder Engagement & Stewardship Guidelines. Consideration should be given to launching the initial Guidelines at the same time as an Indian Stewardship Code. The Guidelines should assist with the practical aspects of Code compliance and implementation, including facilitating good quality responsible engagement practices by both companies and investors. In this regard, the Guidelines Committee may find it useful to refer to guidance entitled ‘Enhancing stewardship dialogue’, which was prepared by the UK’s Institute of Chartered Secretaries and Administrators (ICSA)\(^\text{10}\). A particular area of focus should be compliance with the Code’s provisions relating to conflicts of interest. It is envisaged that the Guidelines Committee will review the Guidelines at regular intervals and make recommendations to SEBI to take account of emerging best practice and other relevant developments. In fulfilling its responsibilities, the Guidelines Committee should always be mindful of the importance of

“Engaged shareholders are a key ingredient of a healthy capital market. Effective investor stewardship supports the long-term success of companies delivering sustained benefits to their shareholders. The UK Stewardship Code encourages fund managers to engage with companies on all matters of concern.”

Sir Winfried Bischoff, Chairman, Financial Reporting Council, April 2015\(^\text{9}\)

\(^9\) Speech by Sir Winfried Bischoff at Grant Thornton’s Governance Dinner, London, 30 April 2015
\(^{10}\) https://www.icsa.org.uk/assets/files/pdfs/guidance/Enhancing_stewardship_dialogue/icsa stewardshipreport.pdf
upholding market abuse provisions to ensure that engagement relating to price sensitive information is managed in a regulatory compliant manner.

• One of the key areas to be explored is to extend SEBI’s existing requirements relating to voting and voting disclosure by mutual funds and asset management companies to other institutions and funds, including pension and life assurance funds. It is expected that voting and voting disclosure will form part of an Indian Stewardship Code. Mutual funds account for a significant 4% share in BSE 200 companies, while the Life Insurance Corporation of India (LIC) accounts for a further 5%\(^{11}\).

• Consider, in conjunction with the Guidelines Committee, the benefits to both companies and investors of establishing a Stewardship & Responsible Engagement Exchange to facilitate and co-ordinate engagement between companies and institutional investors. The UK’s Investor Forum, which is endorsed by the UK Government, provides a model for adaptation.

• Publish an annual review of the Indian Stewardship Code in order to monitor progress. The scope of the review should include monitoring the support given to the Code by foreign international investors. To help build momentum towards responsible capitalism and high standards of stewardship in India it should launch the annual review at a high profile event, particularly in the early years.

4.7
It is emphasised that to achieve the desired outcomes and have maximum impact a Stewardship Code should cover all investors in Indian listed companies, including public and private domestic mutual funds and insurance companies as well as foreign institutional investors, which should be signatories to an Indian Stewardship Code. With nearly 51% share\(^{12}\) of the total market capitalisation of BSE 200 companies, non-promoter shareholders form a crucial component in driving companies towards mutually beneficial outcomes.

4.8
It is acknowledged that in recent years there have been significant improvements to the corporate governance environment in India that have improved the accountability of boards of directors to their shareholders. In addition, Indian mutual funds and a number of other institutional investors in India have been increasingly active and transparent in their voting and engagement activities. The above recommendations build on this progress and provide a living framework for the progressive development and promotion of an Indian Stewardship Code. This will encourage and nurture a constructive two-way dialogue between the boards of listed Indian companies and their shareholders. It is important to note that the recommendations will put an additional burden on investors, in particular, which will only yield the desired benefits to savers if the momentum towards further improving corporate governance in India is maintained.

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\(^{11}\) Prime Database, Capitaline, BSE, NSE, Kotak Institutional Equities

\(^{12}\) Prime Database, Capitaline, BSE, NSE, Kotak Institutional Equities
5.0 CONCLUSION

5.1 Responsible shareholder engagement is gathering momentum around the globe and a commitment to stewardship is one of its critical components. It contributes to responsible capitalism, which recognises that companies exist to serve shareholders, society and a range of stakeholders – including employees and consumers – in different ways that all depend on stewardship to underpin sustainable long-term success.

5.2 The UK Stewardship Code has played an important part in aligning the interests of UK companies with their shareholders by encouraging constructive engagement and effective accountability. In the UK, there is widespread support for the UK Stewardship Code amongst institutional investors and the FRC is now intent on ensuring they live up to their respective Code commitments.

5.3 Indian corporate governance has improved significantly in recent years, as has the voting of mutual funds of their shares in a considered and transparent way. This has helped to stimulate increased engagement between companies and their shareholders on specific issues.

5.4 The IUKFP recognises both the progress that has been achieved in India and the direction of travel globally towards strengthening shareholder engagement. It believes the time is now right for the development and implementation of an Indian Stewardship Code. This will promote responsible engagement that goes beyond voting towards having constructive stewardship dialogues, not only to support the long-term success of companies, but also deliver better returns to investors.
APPENDIX: FURTHER RESOURCES

1. The UK Stewardship Code, September 2012

2. Governance reports and stewardship reviews:
   - Standard Life Investments
   - Hermes EOS
   - Legal & General Investment Management

3. International Corporate Governance Network (ICGN) list of Stewardship Codes and ICGN Global Stewardship Principles
   https://www.icgn.org/policy/stewardship-codes

4. Association of Mutual Funds in India, Industry Trends – August 2016
IUKFP WORKING GROUP ON RESPONSIBLE SHAREHOLDER ENGAGEMENT

Guy Jubb, CA – independent advisor

Guy Jubb is a Scottish chartered accountant and an award winning independent advisor on governance, accountability and stewardship. He was Global Head of Governance & Stewardship at Standard Life Investments for over 20 years and played a leading role in developing and implementing best practice in corporate governance and stewardship. He is a member of the Council of the Institute of Chartered Accountants of Scotland, chairing its Constitutional Panel, and the Standing Advisory Group of the Public Companies Accounting Oversight Board, the US audit regulator.

Chris Hodge – independent advisor

Chris Hodge is an experienced policy-maker and regulator who has worked at the highest levels with business, investors, governments and international organisations such as the European Commission, EBRD and OECD. For ten years until 2014 Chris was Director of Corporate Governance at the UK’s Financial Reporting Council. He was responsible for developing and promoting the UK Corporate Governance Code, and for introducing the first national stewardship code for investors in 2010. Between 2014 and January 2016, Chris was the FRC’s Strategy Director. Chris established, and chaired until 2015, the European Corporate Governance Codes Network, which brings together the bodies responsible for codes in 28 European countries. He is currently acting as an adviser to ICSA: The Governance Institute and Nestor Advisors, the international governance consultancy.

AZB & Partners is one of the prominent law firms in India. Our aim is to provide clear, concise and practical advice based on an in-depth knowledge of the legal, regulatory and commercial environment within which our clients operate and a full understanding of their overall business objectives.

The legal services rendered by us cover the corporate, commercial, regulatory, financial and tax planning aspects of modern businesses. We have been involved in advising in the field of mergers, acquisitions, joint ventures and general corporate, regulatory practice and securities laws, private equity, capital markets, funds practice, banking and finance, microfinance, derivatives, infrastructure and project finance, real estate, media and entertainment, information technology and business process outsourcing, employment, insurance, intellectual property, pharmaceuticals and biotechnology, taxation, aviation, competition law, and litigation and arbitration.
Standard Life Investments is a leading asset manager with an expanding global reach managing total assets worth £269.0 billion ($359.6 billion) as at 30 June 2016.

Headquartered in Edinburgh, Standard Life Investments employs approximately 1,600 talented professionals. We maintain a presence in a number of locations around the world including Boston, Hong Kong, Paris, London, Beijing, Sydney, Dublin, Japan, Singapore and Seoul. In addition, we have close relationships with leading domestic players in Asia, including HDFC Asset Management in India and Sumitomo Mitsui Trust Bank in Japan.

Our parent, Standard Life plc, was established in 1825. It is a leading provider of long-term savings and investments, Standard Life floated on the London Stock Exchange in 2006 and is now a FTSE 100-listed company. Standard Life Investments was launched as a separate company in 1998 and Our investors rank among some of the world's most sophisticated and high-profile institutions. They include pension plans, banks, mutual funds, insurance companies, fund-of-fund managers, endowments, foundations, charities, official institutions, sovereign wealth funds and government authorities.
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The UK-based financial and related professional services industry is a core driver of the economy, responsible for 12 percent of economic output and employing nearly 2.2 million people. Our reach extends far beyond the City of London, with two-thirds of employment outside the capital. Professional services employment outstrips financial services employment. The industry is also an enabler for the rest of the economy, providing financing for businesses and a wide range of products and services to individuals. However, growth is not guaranteed and action is required to secure new opportunities.

Kotak Mahindra group, established in 1985 by Uday Kotak, is one of India’s leading financial services conglomerates. In February 2003, Kotak Mahindra Finance Ltd. (KMFL), the Group’s flagship company, received a banking license from the Reserve Bank of India (RBI). With this, KMFL became the first non-banking finance company in India to be converted into a bank – Kotak Mahindra Bank Limited (KMBL), currently the fourth largest Indian private sector bank by market capitalization. In 2014, Kotak Bank acquired ING Vysya Bank for a deal valued at ₹150 billion (US$2.3 billion). As of July 2015, Kotak Mahindra Bank (post ING merger) has pan India presence with over 1,260 branches, over 1,942 ATMs and assets under management of ₹2,097 billion (US$33 billion).