

PROXY ADVISORY FIRMS -  
'CHAMPIONS'



OF GOOD CORPORATE GOVERNANCE  
OR

OBSTRUCTIONISTS



## What are Proxy Advisors?



# How the word 'Proxy Advisors' derived?

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The term 'proxy advisors' is derived based on the concept of 'proxy votes', where a shareholder authorizes another person ([read Proxy Advisory Firm](#)) to vote on its behalf on the resolutions placed in shareholders' meeting.



# What are Proxy Advisory Firms: General meaning

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A proxy advisory firm is a type of **market intermediary** and **independent research organisation**, which—

- provides advice to the **shareholders (particularly institutional investors)** of a listed company in **exercising their rights**.
- evaluates the advantages and disadvantages of a **corporate action** such as Mergers, Acquisitions, Top Appointments and Managerial Remuneration.
- provides voting recommendations on resolutions, on which shareholders are expected to **vote**.

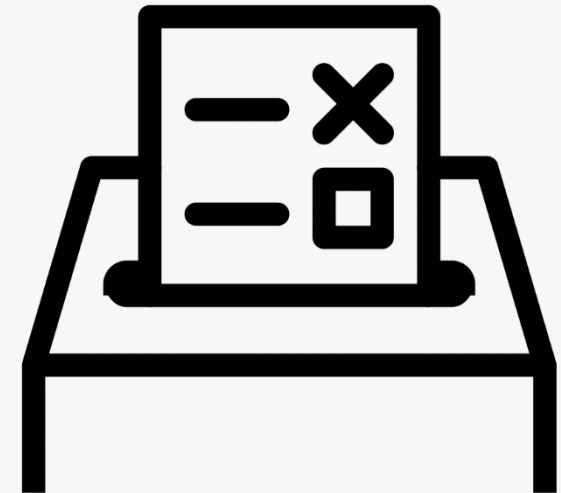
# What are Proxy Advisory Firms:

## As per SEBI (Research Analysts) Regulations, 2014

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As per Regulation 2(1)(p): '**Proxy Adviser**' means:

- Any person who provide advice, through any means, to institutional investor or shareholder of a company, in relation to exercise of their rights in the company including—
  - ◆ **Recommendation on Public Offer; or**
  - ◆ **Voting Recommendation on Agenda Items.**





# Evolution of institution of Proxy Advisory Firms



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# Proxy Advisory Firms: **International Landscape**



## **INSTITUTIONAL SHAREHOLDER SERVICES (ISS)**

Founded year	1985
Headquarter at	Rockville, Maryland, US
Shareholding	Genstar, a leading Private Equity Firm
No. of Clients	1000+
Staff	2000
Facts & Figures	Its clients vote on 8.5 million resolutions representing 3.8 trillion shares.

# Proxy Advisory Firms: International Landscape

## GLASS, LEWIS & CO

Founded year	2003
Headquarter at	San Francisco, California, US
Shareholding	Pension Funds
No. of Clients	1300+
Staff	380+
Facts & Figures	25,000+ reports in 100 countries.



# Proxy Advisory Firms: **International Landscape**

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## **MANIFEST**

Founded year	1995
Headquarter at	United Kingdom
Shareholding	Strategic Investors and Big Fund houses
Facts & Figures	Spans across 80 markets. its total equity assets under administration exceed £3 trillion.

# Proxy Advisory Firms: **International Landscape**

## **NORDIC INVESTOR SERVICES**

Founded year	2002
Headquarter at	Sweden
Shareholding	Big Fund Houses



# Emergence of PAs in India

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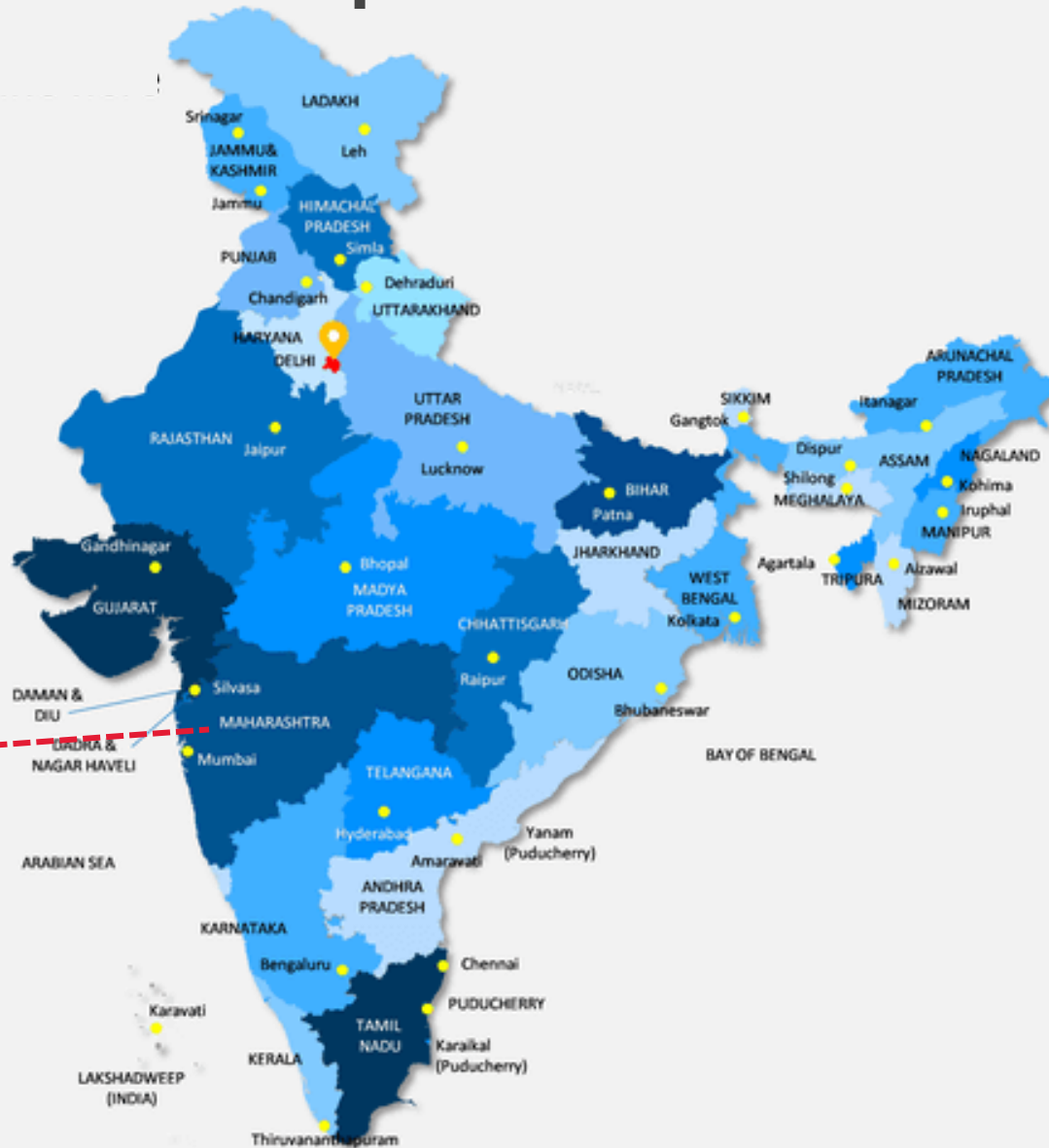
Emergence of PAs in India could be because of the following:

- Growing investment climate;
- Shareholders' activism & participation;
- Increased role of institutional investors over last decade;
- Regulatory thrust on improving corporate governance.

# When did PAs appear on Indian Map?



2010



# InGovern

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- Founded in **2010**
- Headquarters: **Bengaluru**
- Founded by **Mr. Shriram Subramanian**
- Shareholders: **Individuals**
- **First Indian Proxy Advisory Firm**



# Institutional Investor Advisory Services (IIAS)

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- Founded in **2010**
- Headquarter: **Mumbai**
- Founded by **Mr. Anil Singhvi and Mr. Amit Tandon;**
- **780+** Companies covered
- **42000+** Voting recommendations
- Shareholders: **Banks, PE and Individuals**

# Stakeholders Empowerment Services (SES)

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- Founded in **2012**
- **Section 8 Company**
- Headquarter at **Mumbai**
- Founded by **Mr. J. N. Gupta, Mr. Arjun Gupta and Mr. Amarendra Singh**
- Shareholders: **Individuals**
- **800 (approx.)** Companies covered



# Institutional Shareholder Services (ISS)

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- Part of **ISS, United States**
- India Presence since, **2019**
- Indian office at **Mumbai**
- Headed by **Mr. Debanik Basu**

# Who usually are the clients of PAs

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**Mutual Funds**



**Insurance Firms**



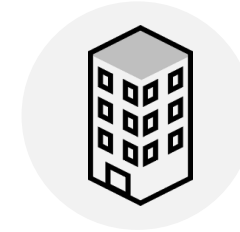
**Private Equity**



**Pension Funds**



**Custodians**



**Corporates**



**Foreign Institutional Investors**



**Hedge Funds**



**Family Offices**



**Commercial Banks**



**Private Wealth Management Firms**



**High Networth Individuals**



## What Proxy Advisory Firms do?



# What is generally perceived about what PAs do?

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**01**

**Voting Recommendations**

**Detailed analysis of proposed  
Agenda Items/Resolution**

**02**

# What PAs actually do: India vis-à-vis International Landscape

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## INDIA

- Proxy Advisory
- Corporate Governance Report/Scorecard
- Corporate Governance Consulting and Education
- Environmental, Social and Governance (ESG) Analysis
- Risk monitoring and Investor Protection

## INTERNATIONAL

- Proxy Research
- Governance Services
- Proxy Voting
- Corporate Governance Reporting & Disclosure
- E&S Services (Environment & Social factors)
- Class Action
- Compensation Modelling
- Data & Analytics
- Market Analytics



## Role and Significance of Proxy Advisory Firms



# Why PAs are important in the modern-day world?



To Improve Corporate Governance Standard and Choices



To further Shareholders' Activism



PAs are economically viable for Institutional Investors



PAs can look into matters which Investors cannot see



PAs promote culture of following good governance practices

# Impact/Influence of PAs

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**PAs provide information blended with financial data, law and best practices. Thus, influence shareholders' voting choices and decisions.**

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**Studies suggest that Corporates adopt better Governance parameters in order to receive positive recommendations from PAs**

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**Institutional Investors prefer to invest more in jurisdictions where PAs are actively present**

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**Retail investors also benefit from research & recommendations of PAs.**

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# Shareholders' decision where PAs recommendation are most influential

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Major controversial voting issues on which recommendations of proxy advisors are **'highly influential'** –

- Directors' Election
- Pay Structure
- Approval of a Major Acquisition or Sale



## What Studies speak about Impact of PAs recommendation - **USA**

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- Average influence of ISS and Glass Lewis **For** / **Against** recommendations in 2017:

	For	Against
Directors Election	97.5%	71.0%
Say on Pay	96.4%	63.8%
Equity Plans	93.2%	74.3%

**No clear evidence that PAs are **Always Right****  
**In fact, there are studies which suggest that they might be**  
**Inaccurate/ Biased**

- Report of Manhattan Institute - May 2018

# Issues with PAs

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- **Dependency** - on publicly available information by PAs may lead to errors/inaccuracies in their recommendation.
- **Lack of Uniformity & Standardization**
- Difference of Perspectives
- **Biased opinions** - as Institutional investors, at times are owners of Proxy advisory.
- **Lack of Transparency** - Regulation of PAs becoming necessary.
- **Advisor to Investors & Corporate** - Conflict of Interests.





## Regulatory Framework



# Indian Regulatory Landscape for PAs

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- India was the first jurisdiction to introduce Regulation for Proxy Advisors.
- The proxy advisory firms are defined under regulation 2(i)(p) of the **SEBI (Research Analysts) Regulations, 2014**.
- Indian Securities Law Framework provides for—
  - ◆ Eligibility Norms
  - ◆ Registration
  - ◆ Code of Conduct
  - ◆ Disclosures and Reporting
  - ◆ Procedural Guidelines - **w.e.f. 1st January 2021**
  - ◆ Grievance Resolution Mechanism - **w.e.f. 1st January 2021**

# SEBI's recent Procedural Guidelines for Proxy Advisors

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- Formulate, update, disclose voting recommendation policies and methodologies.
- Establish process and timeline to communicate with clients and company.
- Share Report with clients and company at the same time, and include company's comments/clarifications in report.
- Clearly disclose in recommendations the legal requirement vis-à-vis higher standard, and the rationale of such higher standard.
- Disclose, manage and mitigate potential conflict of interest.



# SEBI's mechanism for Grievance Resolution between listed entities and PAs

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SEBI recognizes that due to the inherent nature of the work, it is probable that PAs and listed entities may have different views on any agenda item of the listed entity, leading to grievances.

- Grievance Resolution Mechanism - Listed entities may approach SEBI.
- SEBI will examine the non-compliance by proxy advisors with—
  - ◆ Code of Conduct
  - ◆ Procedural guidelines **w.e.f. 01.01.2021**

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## Focal Points for Discussion?





**How Proxy Advisory Firms (PAs) formulate their Policies  
and How are their Standards Tougher?**



**How PAs discharge their Responsibilities Towards Investors?**



- **How PAs Champion Good Governance in Companies?**
- **Assessment methodology followed by PAs?**



- **A comparative of International and Indian Proxy Advisory Landscape !**
- **Lessons that must be learnt from the Global Experience !**



## Industry Perspective, and the Road Ahead for PAs in India !