



To,
General Manager
Division of Funds 1
Investment Management Department
Securities and Exchange Board of India
SEBI Bhavan, Plot No. C4-A, G-Block,
Bandra Kurla Complex, Bandra (East),
Mumbai - 400 051

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Sub: Consultative Paper on Report of Working Group on Issues Concerning Proxy Advisors

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute appreciate the opportunity to submit our response to the **CONSULTATION PAPER ON REPORT OF WORKING GROUP ON ISSUES CONCERNING PROXY ADVISORS.**

IAIP is an association of over 2500 local investment professionals who are CFA charter holders and about 4000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals, that; promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 155,000 members in over 152 countries. In India, the community of CFA charter holders is represented by the Indian Association of Investment Professionals.

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

With regards to the above mentioned consultative paper, we have proposed a few suggestions.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

Our responses to the various points are mentioned below:

A. Details of our Organisation:

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B. Key Contributors:

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C. Suggestions / Comments:

Name of Organisation: Indian Association of Investment Professionals (CFA Society India)			
Sr. No.	Recommendation para	Comments/Suggestions	Rationale
1.	12.a	The Working Group report should also take into account the possibility and related disclosures for cases when proxy advisory firms can serve and advise dissident shareholding groups	Serving both sides of an issue and earning from them needs to be adequately disclosed to both the sides
2.	12.g	SEBI when drafting any policy on proxy advisors can encourage them to demonstrate how they apply their methodologies to produce voting outcomes. Leaving the disclosure methodology to the sample firms may lead to watering down of the informativeness of the disclosures by the firms.	Internationally, ESMA 2015 report also suggests disclosing how the methodology is “applied” in the recommendations’ context. ESMA 2015 report noted the Best practice principle (BPP) declaratory statements from member firms fall short of this recommendation (perhaps because of caginess about revealing the secret sauce). Following this, a more recent (July 2019) update to BPPG principles urges signatories to disclose “ <i>the essential features of any house voting policies BPP Signatories apply for each market (client-specific custom policies will not be disclosed)</i> ”
3.	18	<ul style="list-style-type: none"> • Having a 10% threshold for income earned through extra services is arbitrary. A conflict of interest at 9% is the same as conflict of interest at 10% • Having the threshold set at aggregate level, hides the extent of involvement an advisory firm has with a target company 	Proceeding with a threshold-based approach is not in sync with the best international practices and waters down the effectiveness of any Code of Conduct that SEBI may propose later in the day.
4.	21	It will be prudent to prohibit any recommendatory services so taken by a proxy advisory firm for a firm whose	1. Given that disclosing doesn’t remove conflicts of interest but merely reveals it, and



		promoters have partnerships with promoters of the advisory firm, whenever SEBI comes out with its policy	2. owing to the rare case where another public firm has stake in a proxy advisory firm- it will be safe to err on the side of caution
5.	27	While the Working Group Report recommends the advisory firm to disclose their voting policies and methodologies in <i>general</i> , there is a case for making the voting recommendations public after providing them to the client and on or immediately after voting takes place	There was a suggestion in 2015 report and BPPG that proxy firms could disclose recommendations after providing them to client, and two days before the voting deadline. To protect the business model, SEBI stance can be a little laxer.
6.	33	We agree with the observations of the Working Group here as market forces <i>encourage</i> companies to adopt the advisory and the influence is not high enough to coerce any company to toe the recommendations	
7.	46	While the Working Group Report is optimistic and positive about the ability of institutional investors to be responsible stewards of investor wealth, substantial empirical and academic research exists, where it was shown the mutual funds, pension funds and index funds are all outright or closet 'indexers'. As a result of this, and competition, their spending on stewardship activities is limited. So, a Stewardship Code or not, realizing even if as a subtext that institutional investors are not the ideal guardians, investors make them out to be, will be the right step here	Bebchuk et.al (2017) has argued why institutional investors fail in their stewardship activities. Additionally, in Indian context, with alternative fund industry still nascent and no one opting for an activist role, the findings of the abovementioned paper are even more apt.
8	57	Conversations and communication with proxy advisors need not be public, and there are existing securities laws against disclosing privileged information	
9	60	Given the vast resources of companies vis-à-vis most proxy advisor firms in India, there is still a possibility of companies dragging the proxy firms in costly bureaucratic process. There must be more clarity on how this process wouldn't be abused.	



		<p>Proxy advisors should not be required to show or have their analysis vetted by the issuer before releasing to the proxy advice client. If the proxy advisor wishes to check the accuracy of any of its advice/facts before distributing to the client, we would encourage that fair and frank exchange. We would not expect the SEBI or any regulator to referee disagreements on facts and certainly not opinions.</p>	
10	72	<p>SEBI should not believe or articulate in any idea/principle of “higher standards”, as this can create scope of debate (at the best) or litigation at the worst.</p> <p>Companies who are actively engaged with their top shareowners rarely have problems with proxy advisor recommendations b/c they already know the thoughts and opinions of their investors. They have good relationships with their investors and will of course disagree with them sometimes, but there are no surprises. As part of their code, SEBI could encourage this communication.</p>	<p>Having a perspective of “higher standards” is a highly subjective complication in an already subjective matter like governance.</p> <p>Target companies will always disagree with advice they don’t like, and having a clause like “higher standards” when recommendations like Code of Conduct, Stewardship Code (which are just a little short of law) etc. are present, is a complication and not an innovation</p>
11	92	<p>Having an aspirational document called “best practices” developed by the industry itself, creates scope of uncertainty in the conduct of advisors.</p>	<p>Simplifying the guidelines to stick to Code of Conduct itself is an adequate step</p>

References

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<https://www.esma.europa.eu/press-news/esma-news/esma-publishes-report-proxy-advisors%E2%80%99-best-practice-principles>
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Indian Association of
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If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Rajendra Kalur, CFA @ +91 98196 30042 or at advocacy@iaipirc.org

Sincerely yours,

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