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## Avinash Kumar



*Avinash Kumar has completed his Ph.D. in International Investment Law from the Dept. of Law & Governance, Central University of South Bihar. His research work is on "International Investment Agreement and State's right to regulate Foreign Investment." He qualified UGC-NET and has been selected for the prestigious ICSSR Doctoral Fellowship. He is an alumnus of the Faculty of Law, University of Delhi. Formerly he has been elected as Students Union President of Law Centre-1, University of Delhi. Moreover, he completed his LL.M. from the University of Delhi (2014-16), dissertation on "Cross-border Merger & Acquisition"; LL.B. from the University of Delhi (2011-14), and B.A. (Hons.) from Maharaja Agrasen College, University of Delhi. He has also obtained P.G. Diploma in IPR from the Indian Society of International Law, New Delhi. He has qualified UGC – NET examination and has been awarded ICSSR – Doctoral Fellowship. He has published six-plus articles and presented 9 plus papers in national and international seminars/conferences. He participated in several workshops on research methodology and teaching and learning.*

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**“UNTYING THE GORDIAN KNOT OF PROXY  
ADVISORY FRAMEWORK VIS-À-VIS  
SHAREHOLDER ACTIVISM: AN INDIAN  
PERSPECTIVE”**

AUTHORED BY: - PARVATI ARUN & STUTI GUPTA

**ABSTRACT**

This paper aims to emphasise upon the growth of proxy advisory firms in India and their contribution towards the rise of shareholder activism across the corporate sector. It discusses the functioning of Proxy Advisory Firms, its Grievance Redressal Mechanism created to address the lacunae arising out of non-compliance of regulations as well as to examine the impact and challenges brought by this framework into the existing corporate regime. This paper also highlights the growth in shareholder activism and its reliance upon proxy advisory firms for well-informed decision making thus effectively influencing shareholder votes and leading to improved corporate practices. The authors aim to present the multifaceted issues underlying within the practice of proxy advisory firms in India by examining the rise of the Proxy Advisory Industry within the country, its evolving regulatory landscape guided by the SEBI (Research Analysts) Regulations 2014 (SEBI Regulations), SEBI (Investment Advisers) Regulations 2013 and Procedural Guidelines for Proxy Advisors (Procedural Guidelines) and the challenges present within the existing framework due to concerns surrounding conflict of interest arising from its consultancy and advisory services.

This paper uses a qualitative research method by conducting observations into the framework of the Indian Proxy Advisory Industry and understand the issues within its existing regulations which are currently in its nascent stage, by using case studies and secondary research methods through research journals, articles and portfolios of evidence regarding the emergence of shareholder activism in the country. This paper also invokes attention into the impact of proxy advisory firms on corporate governance by highlighting its prospects on economic growth, fostering innovation and ushering in a system of transparency and accountability by influencing shareholder voting as well as the drawbacks associated with the existence of such a framework.

**KEYWORDS**

Proxy advisory, Shareholder activism, Corporate governance, Regulatory framework, Institutional investors, Stakeholder engagement, Transparency, Conflict of interest, Regulatory oversight, Indian market, Governance practices, Regulatory challenges, Proxy voting, Corporate accountability.

In the purpose section of the abstract for your research paper titled "Untying the Gordian Knot of Proxy Advisory Framework vis-à-vis Shareholder Activism: An Indian Perspective," you can outline the specific objectives and goals of your study. Here's a suggested content for the purpose:

**PURPOSE**

This research aims to investigate and analyze the intricate relationship between proxy advisory frameworks and shareholder activism within the context of India's corporate governance landscape. The primary objectives of this study include:

- Examining the current regulatory framework governing proxy advisory services in India.
- Understanding the impact of proxy advisory recommendations on shareholder activism and corporate decision-making.
- Identifying challenges and conflicts of interest inherent in proxy advisory processes.
- Assessing the effectiveness and transparency of proxy advisory firms in influencing corporate governance practices.
- Providing recommendations for improving the regulatory framework to enhance accountability, transparency, and fairness in proxy advisory activities.

**OUTCOMES**

This study uncovers several critical findings regarding the proxy advisory framework and its interaction with shareholder activism in India:

- **Complex Regulatory Landscape:** The research reveals the multifaceted regulatory environment surrounding proxy advisory services in India, highlighting ambiguities and challenges in governance oversight.

- **Impact on Shareholder Activism:** Analysis demonstrates the significant influence of proxy advisory recommendations on shareholder activism, affecting voting outcomes and corporate governance practices.
- **Transparency and Accountability Issues:** The study identifies transparency and conflict of interest concerns within proxy advisory processes, emphasizing the need for enhanced disclosure and regulatory clarity.
- **Stakeholder Engagement Dynamics:** Insights into stakeholder engagement dynamics show varying perspectives among institutional investors, corporations, and proxy advisory firms, shaping governance practices.
- **Recommendations for Reform:** Based on the findings, the research proposes specific recommendations for regulatory reform aimed at fostering greater transparency, accountability, and effectiveness in proxy advisory operations.

## INTRODUCTION

The Indian corporate regime has been marked by significant transformation with the advent of proxy advisory firms (PAFs) which perform the roles of acting as advisors to institutional investors and shareholders, recommendations which influence voting rights and exercise tremendous impact over corporate governance with time that has been amplified by the presence of a transparent system.

There has been tremendous growth in the system of shareholder activism which has been driven by transformation in corporate governance mechanisms, reforms in regulatory regime and changing financial markets. This has been backed by the support of proxy advisory firms which pass their votes on behalf of the institutional investors on the basis of recommendations given by proxies and this mechanism has led to higher awareness amongst minority shareholders. Although shareholder awareness is in its nascent stage and there have not been many reported instances of shareholders engaging the services of proxy advisory firms to actively block resolutions, corporate India has been recently witnessing instances where minority shareholders have defeated resolutions for appointment/ reappointment of top management, executive compensation or M&A transactions.<sup>1</sup>

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<sup>1</sup> Cyril Shroff, 'From Shareholder to Stakeholder: The Next Age of Activism' (PRIME DATABASE, 2019) <<https://www.primedatabase.com/article/2019/Article-Cyrl%20Shroff.pdf>> accessed 6 April 2024.

Over the last few years, the proxy advisory industry has paved the way for protection of minority shareholders through building a robust infrastructure for corporate governance thus ensuring the long-term growth, ethical conduct of activities and success of a company. Proxy advisory firms function in the form of organisations which guide shareholders, investors and asset managers to make careful decisions by providing research and analysis which leads to fostering of shareholder activism<sup>2</sup>

## **GROWTH OF PROXY ADVISORY INDUSTRY IN INDIA AND ITS REGULATIONS**

The growth of the proxy advisory industry in India has been influenced by the evolution of regulatory developments, policies and procedures over the past three decades. The proxy advisory industry has been a part of American corporate governance since the creation of the landmark 1988 Avon Letter through which the US Department of Labour declared that share ballots are an asset and that only ERISA (Employment Retirement Income Security Act, 1974)-regulated pension funds could mandatorily cast them. This rule further led to the creation of advisory firms which undertook the responsibility of research, analysis and recommendation for shareholders and investors regarding responsibilities pertaining corporate governance schemes such as voting. Institutional Services Inc. (ISS), which was established in 1985 functioned as a proxy advisor for a broad range of companies and the firm established its repertoire in the industry through rise in shareholder activism. In the wake of the corporate scandals and collapse of companies like Enron and World com, institutional investors became more active and turned to the proxy advisory industry for assistance in assessing the corporate governance practices of operating companies and in performing proxy voting functions.<sup>3</sup>

A report conducted by the consulting firm Pricewaterhouse Coopers indicated that institutional investors own 70 percent of all shares publicly traded in the United States. Institutional investors (or rather the proxy advisors on their behalf) also have significantly higher voter participation rates, casting votes representing 91 percent of all the shares they hold, compared to only 29 percent for retail investors.<sup>4</sup>

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<sup>2</sup> Vikas Khemani, 'Corporate Governance in India - Evolved and Evolving' (PRIME DATABASE, 2023) <[https://www.primedatabase.com/article/2023/Article-Vikas\\_Khemani.pdf](https://www.primedatabase.com/article/2023/Article-Vikas_Khemani.pdf)> accessed 3 April 2024.

<sup>3</sup> S. Subramanian, 'Proxy Advisory Industry in India', (2016) 13 Corp. Ownership & Control 371.

<sup>4</sup> Thomas Kingsley, 'Proxy Advisory Firms: A Primer' (American Action Forum, 12 July 2023) <<https://www.americanactionforum.org/insight/proxy-advisory-firms-a-primer-2/>> (last visited 6 April 2024).

The growth of proxy advisory industry in India was driven by the Securities and Exchange Board of India (Mutual Funds) (Amendment) Regulations, 2010 which emerged out of a corporate scandal that arose out of a software services firm named 'Satyam Computers Ltd' and the resolution was focused on voting policy in mutual funds shareholding resolution. This regulation further led to a rise in shareholder activism as it fostered transparency in the system of voting and disclosure of norms related to determination of shareholder rights. This led to the rise of different proxy advisory firms in India with different ownership structures such as In Govern Research Services, Institutional Investors Advisory Services (IIAS) and Stakeholders' Empowerment Services (SES).

The regulations regarding proxy advisory firms are guided under Regulation 2 (i)(p) of the SEBI (Research Analysts) Regulations, 2014 which was issued by the Securities and Exchange Board of India and the Procedural Guidelines for Proxy Advisors dated August 3, 2020. As per the Regulations "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 recommendations on public offer or voting recommendation on agenda items.<sup>5</sup>

Under the existing set of regulations, the domestic proxy advisors are treated in a similar manner as research analysts and are thus required to;<sup>6</sup>

1. Register with SEBI
2. Meet specified qualifications, criteria and capital adequacy norms
3. Adopt internal policies and procedures for the identification, prevention and resolution of conflict of interest
4. Comply with prescribed codes of conduct
5. Publish policies and research methodologies for voting recommendations

The new Procedural Guidelines issued by SEBI have to be employed in addition to SEBI (Research Analyst) Regulations, 2014 which are specified in its Regulation 24 (2). These

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<sup>5</sup> Bharat Reddy & Abhishek Jain, 'Impact of Proxy Advisory Firms: Turning tides and failing resolutions' (CYRIL AMARCHAND MANGALDAS, 4 October 2023) <<https://corporate.cyrilamarchandblogs.com/2023/10/impact-of-proxy-advisory-firms-turning-tides-and-failing-resolutions>> (last visited 4 April 2024).

<sup>6</sup> Kritika Agarwal, 'Regulation of Proxy Advisers in India: Is it a Threat to Shareholder Activism?' (INTERNATIONAL BAR ASSOCIATION) <<https://www.ibanet.org/article/CC400084-CE15-46E9-884D-D112D784DF93>> (last visited 4 April 2024).

include:- <sup>7</sup>

1. The proxy advisors shall formulate and disclose its voting recommendation policies to its clients. The policies should be reviewed at least once annually. The voting recommendation policies shall also disclose the circumstances when not to provide a voting recommendation.
2. The methodologies and processes followed in the development of the research and corresponding recommendations shall be disclosed to the clients.
3. In case of any factual errors or material revisions in its reports, the proxy advisor shall alert its client within 24 (twenty-four) hours of receipt of such information.
4. The proxy advisors shall have a stated process to communicate with its clients and the company.
5. The proxy advisors shall share their report with its clients and the company at the same time. Such sharing policy shall be disclosed by the proxy advisors on their websites.
6. The timeline to receive comments from company may be defined by proxy advisors, and all comments/clarifications received within the timeline, shall be included as an addendum to the report.
7. In the event the company has a different viewpoint on the recommendations stated in the report, the proxy advisors may either revise the recommendation in the addendum report or issue an addendum to the report with remarks, taking into account the said viewpoint.
8. The proxy advisors shall also clearly disclose in their recommendations the legal requirement vis-a-vis higher standard they are suggesting, if any, and the rationale behind the recommendation of higher standards.
9. The proxy advisors shall disclose any conflict of interest on every specific document, where they give their advice. The disclosure shall also address possible areas of potential conflict and safeguards put in place to mitigate such possible conflict of interest.
10. The procedures to disclose, manage, mitigate any potential conflicts of interest arising out of any other business activities, including consulting services, shall be established by the proxy advisors and the same shall be disclosed to the clients.

In addition to this, SEBI has also established a grievance reprisal mechanism whereby which

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<sup>7</sup> SEBI Issues Procedural Guidelines for Proxy Advisors' (ARGUS PARTNERS, 6 August 2020) <<https://argus-p.com/updates/updates/sebi-issues-procedural-guidelines-for-proxy-advisors/>> (last visited 6 April 2024).

it arbitrates the disputes brought by listed companies to its notice regarding the functioning of proxy advisors. After receiving the complaint, SEBI will examine the issues related to it and take necessary action as required. This system ensures that the proxy advisory industry is regularized and will create safety and credibility for the investors and shareholders.

## **IMPACT OF PROXY ADVISORY INDUSTRY ON CORPORATE GOVERNANCE**

Proxy advisory firms have played an important role across the corporate governance regime in the country and has caused a significant impact in governance practices and voting behaviour patterns of shareholders. Studies have shown that the research, analysis and recommendations which are provided by proxy advisory firms are diligently followed by the institutional investors in an enterprise and has led to higher transparency and accountability.<sup>8</sup>

Proxy advisory firms provide an independent assessment and recommendations for performance of compliance and governance tasks in an enterprise as they entail the risks which are associated with such fronts. These key fronts are not considered to have the binding force of law and are placed on a higher threshold as compared to what is applied under the purview of law.

The entry of pension funds into Indian stock market also creates more potential for proxy advisory firms as the Indian pension sector is estimated to reach greater than US \$ 1 trillion as the sector move forward to realize its full growth potential after the passage of the PFRDA Act 2013, according to a Report on Pensions Business in India, prepared jointly by Ernst & Young and Confederation of Indian Industries, which is one of India's apex business association.<sup>9</sup>

Proxy advisors have been able to function as authorities that help enterprises to conform to internationally followed practices of accountability, openness and stakeholder entitlements by promoting practices such as fair executive compensation, diversity in the board, social responsibility and environmental sustainability and this has further fostered a culture of responsibility and greater emphasis on compliance and disclosure standards.

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<sup>8</sup> Paul Rose, 'Proxy Advisors And Market Power: A Review of Institutional Investor Robovoting' (Harvard Law School Forum on Corporate Governance, May 27, 2021) <<https://corpgov.law.harvard.edu/2021/05/27/proxy-advisors-and-market-power-a-review-of-institutional-investor-robovoting/>> (accessed 6 April 2024).

<sup>9</sup> S. Subramanian, 'Proxy Advisory Industry in India' (2016) 13 Corporate Ownership & Control 371.

## METHODOLOGY AND PRACTICES OF INDIAN PROXY VOTING AND INDUSTRY

The Securities and Exchange Board of India (Research Analyst) Regulations, 2014 govern how Proxy Advisory Firms operate in India. According to sub-clause 2 (p), proxy adviser refers to "any person who provides advice, through any means, to institutional investor or shareholder of a company, to exercise of their rights in the company including recommendations on public offer or voting recommendation on agenda items." These rules must be followed by all of these businesses. According to these regulations, these companies must first register with SEBI (the Securities and Exchange Board of India) and adhere to certain threshold requirements, such as creating internal policies and procedures, disclosing information about the entities in reports, keeping track of voting recommendations, etc.

The Indian proxy advisory industry showed tremendous potential for growth. In the USA, where the proxy advisory industry was well developed, it was estimated that mutual funds pay around 0.1 per cent of their assets under management (AUM) as fees for such advice. With an estimated AUM of just over Rs 7000 billion in India (for the financial year 2013-14), the growth potential for proxy advisory firms could be enormous, said the experts<sup>48</sup>. The demand for proxy advisory services was expected to grow multifold, given the growth potential of Indian economy.

In the dynamic landscape of Indian corporate governance, PAFs like IiAS, SES, and InGovern wield significant influence. These entities guide shareholder voting, fostering transparency and accountability through meticulous research, analysis, and recommendations. Delving into their methodologies and practices reveals the inner workings of this influential industry, shaping the future of India's corporate landscape - <sup>10</sup>

1. IiAS – Institutional Investor Advisory Services Limited was started in 2011 by Anil Singhvi and Amit Tandon. It is dedicated to delivering unbiased perspectives, research, and data on corporate governance and ESG issues, along with providing voting recommendations on shareholder resolutions for around 800 companies, which collectively constitute over 95% of market capitalization in the Indian market.

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<sup>10</sup> Shashank Shekhar, Namish Ojha, 'Proxy Advisory Firms: Shaping Corporate Governance Practices in India' (IRCCL, 12 Jan 2023) <<https://www.irccl.in/post/proxy-advisory-firms-shaping-corporate-governance-practices-in-india>>(last visited 6 Apr 2024)

2. SES - Stakeholders' Empowerment Services was started in 2012 by Jitendra Nath Gupta, Arjun Gupta and Amarendra Singh. It is dedicated to promoting the active engagement of stakeholders in corporate governance, an essential foundation for the long-term sustainable growth of the company. Through collaboration with investors, the organization assists in analyzing governance practices at listed companies, provides education on corporate governance-related matters, and empowers stakeholders with governance tools to facilitate meaningful participation in the Corporate Governance process.
3. InGovern – InGovern Research Services was started in India in 2010 by Mr. Shriram Subramanian (formerly with Infosys Consulting). It is dedicated to providing vote recommendations which covers shareholder meetings, including AGM, EGM, postal ballots and court convened meetings. Further, it also provides shareholder activism and value enhancement services to investors and corporates.

The most recent procedural rules, which were released in response to regulations 24(2) and 23(1), mandate that these firms adhere to the code of conduct. Regulation 2382, in conjunction with Regulation 1983, addresses the disclosures that PAF is required to make. In its regulations, the Securities and Exchange Board of India requires mutual funds to disclose broad policies and procedures pertaining to members' voting rights and the ways in which their holdings of shares influence those rights. The AMC should make all of these details available on their website and in their annual reports. Furthermore, AMCs are required to disclose actual proxy vote activity related to certain concerns, such as modifications to corporate governance matters, changes to capital structures etc.

Insurance companies were encouraged to take a more active role in the governance of investee companies during general meetings, with a call to engage more extensively with managements. In March 2017, the Insurance Regulatory and Development Authority introduced a stewardship code for insurers, consisting of seven principles modelled after the UK stewardship code. Subsequently, in November 2018, working groups were established to review the operations of proxy advisory firms and monitor their activities. Recommendations from these groups proposed mandating Foreign Portfolio Investors (FPIs), Portfolio Managers, Alternative Investment Funds (AIFs), Real Estate Investment Trusts (REITs), Infrastructure Investment Trusts (InvITs), etc., to ensure that proxy advisors have the appropriate capacity and capabilities.

## **CONFLICT OF INTEREST BETWEEN PROXY ADVISORY FIRMS AND SHAREHOLDERS**

Proxy advisory firms play a pivotal role in corporate governance by providing recommendations to shareholders on matters such as executive compensation, board composition, and shareholder proposals. However, a significant concern arises regarding potential conflicts of interest between these firms and the shareholders they advise. This conflict stems from several key factors inherent in the relationship between proxy advisory firms and their clients, the shareholders.

- **Business Model and Revenue Source**

Proxy advisory firms often generate revenue from both shareholder clients and corporate clients. Shareholders pay for advisory services to inform their voting decisions on corporate matters, while corporations may hire these firms for consulting services to improve their corporate governance practices. This dual revenue stream can create a conflict of interest, as the firms may be incentivized to cater more to the interests of their corporate clients to secure lucrative consulting contracts, potentially at the expense of impartial shareholder advice.

- **Influence on Shareholder Voting**

Given their influence over shareholder voting decisions, proxy advisory firms wield significant power in shaping corporate governance outcomes. This influence raises concerns about the transparency and objectivity of their recommendations. Shareholders rely on these firms for unbiased guidance, but if the firms are financially dependent on corporate clients, their recommendations could be influenced by these relationships, rather than solely by the best interests of shareholders.

- **Lack of Regulation and Oversight**

Another issue contributing to potential conflicts of interest is the absence of comprehensive regulation and oversight of proxy advisory firms. Unlike other financial service providers, such as investment advisers and broker-dealers, proxy advisory firms operate with relatively fewer regulatory requirements. This regulatory gap can lead to ambiguous practices and insufficient transparency regarding potential conflicts of interest.

- Limited Competition and Market Dominance

The proxy advisory industry is dominated by a few major firms, which further exacerbates concerns about conflicts of interest. With limited competition, these firms may face less pressure to address conflicts or improve transparency in their operations. Shareholders may have limited alternative sources for independent advice, thereby reinforcing the influence of these dominant firms despite potential conflicts of interest.

### **Mitigating Conflict of Interest**

To address these challenges, stakeholders should consider several strategies:

**Enhanced Disclosure Requirements:** Implementing stricter disclosure rules can increase transparency regarding the relationships between proxy advisory firms and their clients, enabling shareholders to assess potential conflicts of interest.

**Diversification of Services and Revenue Streams:** Proxy advisory firms should explore diversifying their service offerings and revenue streams to reduce dependency on corporate clients, thus minimizing conflicts of interest.

**Regulatory Oversight:** Regulators could consider implementing more stringent oversight of proxy advisory firms to ensure adherence to best practices and ethical standards in corporate governance advisory services.

Proxy advisory firms play a crucial role in facilitating shareholder engagement and corporate governance, conflicts of interest remain a significant concern. Addressing these conflicts requires a multifaceted approach involving regulatory reform, enhanced transparency, and diversified business models within the proxy advisory industry to better align with the interests of shareholders.

## **CHALLENGES FACED BY PROXY ADVISORY INDUSTRY**

Proxy advisory firms provide asset managers perspective on corporate governance and recommendations on proposals using a broad framework while developing specific recommendations for contests. The approach of the proxy advisory firms does not directly distinguish how different investors, such as different types of mutual funds and ETFs, should vote. In effect, it is a one-size-fits-all approach, implicitly assuming unanimity among all the investors. In some corporate governance contexts, there may not be a single unified objective

across all shareholders, and the preferences among shareholders would therefore not be identical. For example, there might be differences in the objectives of hedge funds and mutual funds that are operated by the same asset management company; environmental, social, or governance (ESG) considerations; tax considerations that would influence preferences on certain matters; or ownership of other assets. It is not obvious that different funds in the same fund complex should want to vote their shares identically on all questions.<sup>11</sup>

Ultimately, it is the responsibility of the mutual fund managers to vote the shares of their various holdings—possibly voting differently for distinct funds in the same complex—consistent with their fiduciary duty to the ultimate shareholders. This discussion ties to the question of whether the proxy advisory firms can formulate robust prescriptions to evaluate the various matters that are considered in the proxy process. It also highlights a reason for fund complexes to make the final voting decisions, as opposed to simply outsourcing those decisions to proxy advisory firms, to allow possible differentiation by fund. This is an inherent limitation of a one-size-fits-all system of recommendations both at the level of the proxy advisory firm and at the level of implementation of recommendations by asset managers.

Regulation N-PX required disclosure by mutual funds of their votes beginning in 2004. As a result of the transparency of mutual-fund votes created by Regulation N-PX, mutual fund managers have internalized to a greater degree the importance of their voting decisions, heightening the importance of proxy advisory firms and helping to lead to the emergence of Glass Lewis. The transparency created by Regulation N-PX also has led to a range of interesting evidence about fund voting decisions.

- Regulatory Uncertainty and Compliance Burden

One of the primary challenges facing proxy advisory firms is the lack of clear and uniform regulatory frameworks governing their operations. In many jurisdictions, including India, the regulatory environment for proxy advisory firms is evolving and often subject to ambiguity. This uncertainty can lead to compliance challenges as firms navigate varying regulatory requirements across different markets, impacting their ability to provide consistent and reliable services to shareholders.

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<sup>11</sup> Chester S Spatt, 'Proxy Advisory Firms, Governance, Failure and Regulation' (Harvard Law School Forum on Corporate Governance, 25 June 2019) <<https://corpgov.law.harvard.edu/2019/06/25/proxy-advisory-firms-governance-failure-and-regulation/>> (last visited 6 Apr 2024)

- Conflicts of Interest and Independence

Proxy advisory firms must navigate potential conflicts of interest arising from their relationships with both shareholders and corporate entities. The dual revenue model, where firms receive fees from both shareholders and corporate clients for consulting services, raises concerns about impartiality and independence. Striking a balance between serving shareholder interests and maintaining objectivity in advisory services is a persistent challenge faced by proxy advisory firms.

- Influence and Accountability

Proxy advisory firms wield significant influence over shareholder voting outcomes, making accountability and transparency critical issues. The recommendations of these firms can shape corporate governance practices and impact the outcomes of shareholder resolutions. However, concerns arise regarding the accountability of proxy advisory firms, particularly in terms of the methodologies used to formulate recommendations and the potential biases inherent in their decision-making processes.

- Limited Market Competition and Market Dominance

The proxy advisory industry is characterized by a few dominant firms, which can lead to market concentration and limited competition. This lack of diversity among service providers may undermine innovation and reduce the availability of alternative viewpoints for shareholders. Furthermore, market dominance by a few firms may exacerbate concerns about conflicts of interest and the need for greater transparency in the industry.

- Communication and Engagement with Stakeholders

Effective communication and engagement with stakeholders, including shareholders and corporate entities, present ongoing challenges for proxy advisory firms. Building trust and credibility within the corporate governance ecosystem requires proactive efforts to enhance transparency, educate shareholders, and promote dialogue with issuers. However, communication barriers and differing expectations among stakeholders can complicate these efforts.

In the Indian context, addressing these challenges requires a coordinated approach involving regulators, market participants, and proxy advisory firms themselves. Key strategies may include establishing clear and comprehensive regulatory frameworks for proxy advisory firms

to enhance transparency and mitigate conflicts of interests. Implementation of robust disclosure standards to promote transparency in proxy advisory methodologies and business practices. Increasing market competition through incentives and regulations that support the entry of new players and foster innovation in proxy advisory service.

Facilitating constructive dialogue and engagement between proxy advisory firms, shareholders, and corporate entities to build mutual understanding and trust. By addressing these challenges, proxy advisory firms can better navigate the complexities of the corporate governance landscape in India and contribute meaningfully to shareholder activism and responsible corporate behavior.

### **SUGGESTIONS AND CONCLUSION**

In conclusion, this research paper has delved into the complex interplay between proxy advisory frameworks and shareholder activism in the Indian context. By examining the current regulatory landscape and the challenges faced by both institutional investors and corporations, this study sheds light on the need for a balanced and transparent proxy advisory system. It is evident that there is a growing awareness of the impact of proxy advisory recommendations on shareholder voting outcomes and corporate governance practices. However, this research also highlights the potential for improvements in the regulatory framework to ensure fairness, accountability, and effectiveness in proxy advisory processes.

**Enhanced Disclosure Requirements:** Implementing stricter disclosure rules can increase transparency regarding the relationships between proxy advisory firms and their clients, enabling shareholders to assess potential conflicts of interest.

**Diversification of Services and Revenue Streams:** Proxy advisory firms should explore diversifying their service offerings and revenue streams to reduce dependency on corporate clients, thus minimizing conflicts of interest.

**Regulatory Oversight:** Regulators could consider implementing more stringent oversight of proxy advisory firms to ensure adherence to best practices and ethical standards in corporate governance advisory services.

**Educational Initiatives:** Efforts should be made to educate shareholders and companies about the importance and implications of proxy advisory recommendations. This can promote greater understanding and engagement in corporate governance practices.

By implementing these suggestions, stakeholders can work towards untangling the

complexities associated with proxy advisory frameworks and shareholder activism, thereby promoting transparency, accountability, and sustainable corporate governance practices in India. Proxy advisory firms play a crucial role in facilitating shareholder engagement and corporate governance, conflicts of interest remain a significant concern. Addressing these conflicts requires a multifaceted approach involving regulatory reform, enhanced transparency, and diversified business models within the proxy advisory industry to better align with the interests of shareholders.

