



**CIRCULAR**

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To

**All Mutual Funds (MFs)/ Asset Management Companies (AMCs)/  
Trustee Companies/ Boards of Trustees of Mutual Funds  
All Alternative Investment Funds**

**Subject: Stewardship Code for all Mutual Funds and all categories of  
AIFs, in relation to their investment in listed equities**

1. The importance of institutional investors in capital markets across the world is increasing the world over; they are expected to shoulder greater responsibility towards their clients / beneficiaries by enhancing monitoring and engagement with their investee companies. Such activities are commonly referred to as 'Stewardship Responsibilities' of the institutional investors and are intended to protect their clients' wealth. Such increased engagement is also seen as an important step towards improved corporate governance in the investee companies and gives a greater fillip to the protection of the interest of investors in such companies.
2. SEBI has already implemented principles on voting for Mutual Funds through Circulars dated March 15, 2010 and March 24, 2014, which prescribed detailed mandatory requirements for Mutual Funds in India to disclose their voting policies and actual voting by Mutual Funds on different resolutions of investee companies.
3. SEBI along with Insurance Regulatory and Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority (PFRDA) had subsequently examined a proposal for introducing stewardship principles in India, which was approved by a sub-committee of the Financial Stability and Development Council (FSDC-SC).



4. It has now been decided that all Mutual Funds and all categories of AIFs shall mandatorily follow the Stewardship Code as placed at **Annex A**, in relation to their investment in listed equities.
5. The Stewardship Code shall come into effect from the Financial Year beginning April 01, 2020.
6. This circular is issued in exercise of powers conferred under Section 11 of the Securities and Exchange Board of India Act, 1992 read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996 and Regulation 36 of SEBI (Alternative Investment Funds) Regulations, 2012, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
7. This Circular is available at [www.sebi.gov.in](http://www.sebi.gov.in) under the link “*Legal→Circulars*”.

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## Stewardship Code

### ❖ Principle 1

Institutional Investors should formulate a comprehensive policy on the discharge of their stewardship responsibilities, publicly disclose it, review and update it periodically.

#### **Guidance**

Stewardship responsibilities include monitoring and actively engaging with investee companies on various matters including performance (operational, financial, etc.), strategy, corporate governance (including board structure, remuneration, etc.), material environmental, social, and governance (ESG) opportunities or risks, capital structure, etc. Such engagement may be through detailed discussions with management, interaction with investee company boards, voting in board or shareholders meetings, etc.

Every institutional investor should formulate a comprehensive policy on how it intends to fulfill the aforesaid stewardship responsibilities and disclose it publicly. In case any of the activities are outsourced, the policy should provide for the mechanism to ensure that in such cases, stewardship responsibilities are exercised properly and diligently.

The policy should be reviewed and updated periodically and the updated policy should be publicly disclosed on the entity's website. A training policy for personnel involved on implementation of the principles is crucial and may form a part of the policy.

### ❖ Principle 2

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

#### **Guidance**

As a part of the aforesaid comprehensive policy, institutional investors should formulate a detailed policy for identifying and managing conflicts of interest. The policy shall be intended to ensure that the interest of the client/beneficiary is placed before the interest of the entity. The policy should also address how matters are handled when the interests of clients or beneficiaries diverge from each other.



The conflict of interest policy formulated shall, among other aspects, address the following:

1. Identifying possible situations where conflict of interest may arise. E.g. in case of investee companies being associates of the entity.
2. Procedures put in place by the entity in case such conflict of interest situations arise which may, *inter alia*, include:
  - a. Blanket bans on investments in certain cases
  - b. Having a '*Conflict of Interest*' Committee to which such matters may be referred to.
  - c. Clear segregation of voting function and client relations/ sales functions.
  - d. Policy for persons to recuse from decision making in case of the person having any actual/ potential conflict of interest in the transaction.
  - e. Maintenance of records of minutes of decisions taken to address such conflicts.
3. Periodical review and update of such policy and public disclosure.

### ❖ Principle 3

*Institutional investors should monitor their investee companies.*

#### **Guidance**

As a part of the aforesaid comprehensive policy, institutional investors should have a policy on continuous monitoring of their investee companies in respect of all aspects they consider important which shall include performance of the companies, corporate governance, strategy, risks etc.

The investors should identify the levels of monitoring for different investee companies, areas for monitoring, mechanism for monitoring etc. The investors may also specifically identify situations where they do not wish to be actively involved with the investee companies e.g. in case of small investments.

The investors should also keep in mind regulations on insider trading while seeking information from the investee companies for the purpose of monitoring.

Accordingly, the institutional investors shall formulate a policy on monitoring specifying, *inter-alia*, the following:

1. Different levels of monitoring in different investee companies. E.g. companies where larger investments are made may involve higher levels of monitoring *vis-à-vis* companies where amount invested is insignificant from the point of view of its assets under management.



2. Areas of monitoring which shall, *inter-alia*, include:
  - a. Company strategy and performance - operational, financial etc.
  - b. Industry-level monitoring and possible impact on the investee companies.
  - c. Quality of company management, board, leadership etc.
  - d. Corporate governance including remuneration, structure of the board (including board diversity, independent directors etc.) related party transactions, etc.
  - e. Risks, including Environmental, Social and Governance (ESG) risks
  - f. Shareholder rights, their grievances etc.
3. Identification of situations which may trigger communication of insider information and the procedures adopted to ensure insider trading regulations are complied with in such cases.

❖ **Principle 4**

*Institutional investors should have a clear policy on intervention in their investee companies. Institutional investors should also have a clear policy for collaboration with other institutional investors where required, to preserve the interests of the ultimate investors, which should be disclosed.*

**Guidance**

Institutional investors should have a clear policy identifying the circumstances for active intervention in the investee companies and the manner of such intervention. The policy should also involve regular assessment of the outcomes of such intervention. Intervention should be considered even when a passive investment policy is followed or if the volume of investment is low, if the circumstances so demand.

Circumstances for intervention may, *inter alia*, include poor financial performance of the company, corporate governance related practices, remuneration, strategy, ESG risks, leadership issues, litigation etc.

The mechanisms for intervention may include meetings/discussions with the management for constructive resolution of the issue and in case of escalation thereof, meetings with the boards, collaboration with other investors, voting against decisions, etc. Various levels of intervention and circumstances in which escalation is required may be identified and disclosed. This may also include interaction with the companies through institutional investor associations (E.g. AMFI). A committee may also be formed to consider which mechanism to be opted, escalation of matters, etc. in specific cases.



❖ **Principle 5**

*Institutional investors should have a clear policy on voting and disclosure of voting activity.*

**Guidance**

To protect and enhance wealth of the clients/ beneficiaries and to improve governance of the investee companies, it is critical that the institutional investors take their own voting decisions in the investee company after in-depth analysis rather than blindly supporting the management decisions.

This requires a comprehensive voting policy to be framed by the institutional investors including details of mechanisms of voting, circumstances in which voting should be for/against/abstain, disclosure of voting, etc. The voting policy, voting decisions (including rationale for decision), use of proxy voting/voting advisory services, etc. should be publicly disclosed.

The voting policy shall, *inter-alia*, include the following:

1. Mechanisms to be used for voting (e.g. e-voting, physically attending meetings, voting through proxy, etc.)
2. Internal mechanisms for voting including:
  - a. Guidelines on how to assess the proposals and take decision thereon
  - b. Guidelines on how to vote on certain specific matters/ circumstances including list of such possible matters/circumstances and factors to be considered for a decision to vote for/ against/ abstain
  - c. Formulation of oversight committee as an escalation mechanism in certain cases
  - d. Use of proxy advisors
  - e. Policy for conflict of interest issues in the context of voting
3. Disclosure of voting including:
  - a. Periodicity of disclosure
  - b. Details of actual voting for every proposed resolution in investee companies i.e. *For, Against or Abstain*
  - c. Rationale for voting
  - d. Manner of disclosure – e.g. in annual report to investors, quarterly basis on website etc.
4. In case of use of proxy voting or other voting advisory services, disclosures on:
  - a. Scope of such services



- b. Details of service providers
- c. Extent to which the investors rely upon/use recommendations made by such services

❖ **Principle 6**

*Institutional investors should report periodically on their stewardship activities.*

**Guidance**

Institutional investors shall report to their clients/ beneficiaries periodically on how they have fulfilled their stewardship responsibilities as per their policy in an easy-to-understand format.

However, it may be noted that the compliance with the aforesaid principles does not constitute an invitation to manage the affairs of a company or preclude a decision of the institutional investor to sell a holding when it is in the best interest of clients or beneficiaries.

Institutional investors shall report periodically on their stewardship activities in the following manner:

1. A report may be placed on website on implementation of every principle. Different principles may also be disclosed with different periodicities. E.g. Voting may be disclosed on quarterly basis while implementation of conflict of interest policy may be disclosed on an annual basis. Any updation of policy may be disclosed as and when done.
2. The report may also be sent as a part of annual intimation to its clients/ beneficiaries.