



SEBI gives another 4 months to implement procedural guidelines by proxy advisors & for resolution of grievances between listed companies and proxy advisors

August 28, 2020

SEBI had recently issued circulars providing for: (a) procedural guidelines (listed below) to be adhered to by proxy advisors, and (b) resolution of certain grievances between proxy advisors and listed companies by SEBI, with effect from September 1, 2020 ([available here](#) and [here](#)).

However, considering the prevailing business and market conditions due to COVID-19 pandemic, SEBI has extended the timeline for compliance with both the aforesaid circulars by 4 months. Accordingly, both the said circulars will now be applicable with effect from **January 1, 2021** (extension has been given vide SEBI Circulars dated August 27, 2020 ([available here](#) and [here](#) respectively).

Procedural Guidelines for Proxy Advisors

- **Voting recommendation policies:** Proxy Advisors shall be required to formulate the voting recommendation policies and disclose the updated voting recommendation policies to its clients. Proxy Advisors shall ensure that the policies are reviewed at least once annually. The voting recommendation policies shall also disclose the circumstances when not to provide a voting recommendation.
- **Disclosure on processes:** Proxy Advisors shall be required to disclose the methodologies and processes followed in the development of their research and corresponding recommendations to its clients. Proxy Advisors shall have a stated process to communicate with its clients and the company.
- **Intimation to clients within 24 hours of any factual errors:** Proxy Advisors shall be required to alert clients, within 24 hours of receipt of information, about any factual errors or material revisions to the report.
- **Sharing of report and revisions thereof:** Proxy Advisors shall be required to share their report with its clients and the company at the same time. This sharing policy should be disclosed by proxy advisors on their website. Timeline to receive comments from company may be defined by proxy advisors and all comments/clarifications received from the company, within timeline, shall be included as an addendum to the report. If the company has a different viewpoint on the recommendations stated in the report of the proxy advisors, then proxy advisors, after taking into account the said viewpoint, may either revise the recommendation in the addendum report or issue an addendum to the report with its remarks, as considered appropriate.
- **Disclosure vis-à-vis higher standards:** Proxy Advisors shall be required to 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.
- **Disclosure on conflict of interest:** Proxy Advisors shall be required to disclose conflict of interest on every specific document where they are giving their advice. Further, the disclosures should especially address possible areas of potential conflict and the safeguards that have been put in place to mitigate possible conflicts of interest.
- **Procedures to handle conflict of interest:** Proxy Advisors shall establish clear procedures to disclose, manage and/or mitigate any potential conflicts of interest resulting from other business activities including consulting services, if any, undertaken by them and disclose the same to clients.

Nature of complaints that should not be handled by stock exchanges and should be forwarded as below

Due to the inherent nature of the work undertaken by proxy advisors, it is probable that proxy advisors and listed entities may have different views on any agenda item of the listed entity leading to grievances. Therefore, listed entities will be able to approach SEBI for resolution of such grievances against SEBI registered proxy advisors upon the above circulars coming into effect as above. SEBI will examine the matter for non-compliance by proxy advisors with the provisions of the Code of Conduct under Regulation 24(2) read with Regulation 23(1) of the SEBI (Research Analyst) Regulations, 2014 and the Procedural Guidelines for proxy advisors issued vide SEBI Circular dated August 3, 2020.

Disclaimer: The information provided in this update is intended for informational purposes only and does not constitute legal opinion or advice.