



# Proxy advisors to adhere to procedural guidelines | Grievance redressal between proxy advisors and listed companies by SEBI

August 05, 2020

Dear Readers,

With effect from September 1, 2020, certain additional procedural guidelines are required to be adhered to by proxy advisors, and any grievances (related to agenda items) between proxy advisors and listed companies could be resolved by SEBI. As you are aware, proxy advisors provide advice, to an 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. Keeping the aforementioned in mind, SEBI has directed following changes from September 1, 2020:

## A. Procedural Guidelines for Proxy Advisors in addition to Code of Conduct

SEBI has vide Circular dated August 3, 2020 ([available here](#)) issued procedural guidelines for Proxy Advisors (**Procedural Guidelines**). These Procedural Guidelines are in addition to the code of conduct which are required to be followed by Proxy Advisors under Regulation 24(2) read with 23(1) of the SEBI (Research Analyst) Regulations, 2014.

Key Procedural Guidelines are provided below:

- Proxy Advisors shall formulate the voting recommendation policies and disclose the updated voting recommendation policies to its clients. Proxy Advisors shall ensure that 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.
- Proxy Advisors shall disclose the methodologies and processes followed in the development of their research and corresponding recommendations to its clients.
- Proxy Advisors shall alert clients, within 24 hours of receipt of information, about any factual errors or material revisions to the report.
- Proxy Advisors shall have a stated process to communicate with its clients and the company.
- Proxy Advisors shall 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.
- Proxy Advisors shall 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.
- Proxy Advisors shall 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.
- 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.

## B. Grievance resolution between listed entities and proxy advisors by SEBI

In order to facilitate resolution of grievances of listed entities against SEBI registered proxy advisors, SEBI has vide Circular dated August 4, 2020 ([available here](#)) permitted listed entities to approach SEBI for resolution of such grievances. As per the Circular, 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. 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.

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