



पेंशन निधि विनियामक और
विकास प्राधिकरण

बी-14/ए, छत्रपति शिवाजी भवन,
कुतुब संस्थागत क्षेत्र,
कटवारिया सराय, नई दिल्ली-110016.
दूरभाष : 011-26517501, 26517503, 26133730
फैक्स : 011-26517507
वेबसाइट : www.pfrda.org.in

**PENSION FUND REGULATORY
AND DEVELOPMENT AUTHORITY**

B-14/A, Chhatrapati Shivaji Bhawan,
Qutab Institutional Area,
Katwaria Sarai, New Delhi-110016.
Ph : 011-26517501, 26517503, 26133730
Fax : 011-26517507
Website : www.pfrda.org.in

CIRCULAR

PFRDA/2018/01/PF/01

Date: 4th May, 2018

Subject: Common Stewardship Code

1. National Pension System strives to provide old age income security to its subscribers of which NPS Trust is the legal owner of the funds and the Pension Funds undertaking investment of such monies as per the investment guidelines approved by the Authority. Pension Funds are expected to shoulder greater responsibility towards the subscribers/beneficiaries by enhancing monitoring and engagement with the investee companies. Such activities are commonly referred to as '*Stewardship Responsibilities*' of the institutional investors and asset managers and are intended to protect the subscribers' pension 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 subscribers in such companies.
2. In view of the above, in consultation with Securities and Exchange Board of India (SEBI) and Insurance Regulatory and Development Authority of India (IRDAI), a proposal for introducing a Stewardship Code in India was examined by a sub-committee of the Financial Stability and Development Council (FSDC) and approved.
3. All the Pension Funds under the NPS architecture shall follow the Stewardship Code as placed at **Annex** including the voting policy dated 20.04.2017, which is already recognized in such principles and is effective.
4. The principles (other than voting policy which is already in effect) enumerated in the Code shall be effective from the date of issuance.
5. This Circular is issued in exercise of the powers conferred under Sections 14 (1) read with 14 (2) (a) & (b) of the Pension Fund Regulatory and Development Authority Act, 2013.
6. This Circular is available at www.pfrda.org.in under the link "Regulatory Framework- Circulars".

**(Venkateswarlu Peri)
Chief General Manager**

To
Pension Funds registered with PFRDA

Common 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. 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 may, 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 updation 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 may 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 may 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 may, *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 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, litigations, 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.

PFRDA has already issued detailed voting policy vide Circular No.PFRDA/2017/17/PF/1 dated 20.04.2017 for Pension Funds under NPS for compliance.

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 may accordingly report periodically on their stewardship activities in the following manner:

1. A report that 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.



04/5/18