

National Foundation for Corporate Governance

Core Group on Corporate Governance Norms for Institutional Investors

Concept Paper on

Internal Governance Norms for Institutional Investors

April, 2007

Preface

Institutional investors have been emerging as a powerful and decisive constituency in the category of shareholders. Activism of institutional investors in recent past, in corporate decision making process, has raised certain issues in the domain of corporate governance. Institutional investors have been demanding more transparency and independence in functioning of corporate boards. Management as well as promoter shareholders have started reckoning the influence of institutional investors.

However, this activism has raised concerns regarding their own internal governance systems and standards. Following the completion of Corporate Governance Country Assessment of India by the World Bank, it was felt necessary to study and develop norms for internal governance for institutional investors in India.

A Core Group was constituted by National Foundation for Corporate Governance, under Ministry of Company Affairs, Government of India in cooperation with Confederation of Indian Industries to suggest norms for internal governance for institutional investors.

The Core Group is comprised of

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Evolving uniform norms for different kinds and nature of institutional investors was a daunting task before the Core Group. However, the members have extensively deliberated the issues and practices in vogue in India and abroad to evolve a common norm for internal governance for institutional investors in India. Based on these deliberations, a Draft Concept Paper was prepared and the same was circulated among a few experts and practitioners seeking their views.

The Core Group is thankful to all those who had shared their views, particularly, to Prof. N. Balasubramanian, Dr. Regi George P., and Shri Sameer Kagalkar from Indian Institute of Management, Bangalore, Prof. T. T. Ram Mohan, Indian Institute of Management, Ahmedabad, Ms. Sucheta Dalal, Consulting Editor, Money Life, and Institute of Company Secretaries of India, for providing valuable comments on the Draft Concept Paper.

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1. Backdrop

1.1. This exercise of developing the norms for internal governance for the institutional investors has originated from one of the Policy Papers of the World Bank¹ (“World Bank Paper”) prepared in cooperation with Confederation of Indian Industries, at the request of the Ministry of Company Affairs, Government of India, following the completion of country’s ROSC² by the World Bank.

1.2. Purpose of the World Bank Paper was to review market practices regarding exercise of ownership rights of the institutional investors in their portfolio companies; and to propose policy recommendations to the Government of India to improve institutional investors’ activism in their portfolio companies.

1.3. It is believed that institutional investors’ activism improves governance practices in their portfolio companies leading to reduction in their cost of capital and reinforcement of investors’ confidence.

1.4. While discussing institutional investors’ influence on corporate governance, the World Bank Paper makes a specific mention of not addressing the issue of internal governance of institutional investors. This Paper picks up this unfinished agenda and attempts to address issues in internal governance of institutional investors.

1.5. Effectiveness of institutional investors’ activism significantly depends on efficiency and adequacy of internal governance norms followed by these institutional investors.

¹ India: Role of Institutional Investors in the Corporate Governance of their Portfolio Companies; June, 2005; Finance and Private Sector Development Unit, South Asia Region, The World Bank.

² Report on the Observance of Standards and Codes (ROSC) – Corporate Governance Country Assessment – India, 2004.

2. Rationale

2.1. The World Bank Paper, *inter allia*, recommends institutional investors to take active interest in the Board of their portfolio companies in order to enhance the value of their investments.

2.2. The World Bank Paper holds the view that institutional investors are expected to act in fiduciary capacity. They are in a better position to assert and exert pressure on the corporate boards than the retail investors, to play an active role in their portfolio companies due to:

- (i) the large resources at their disposal;
- (ii) their ability to network and influence; and
- (iii) the expertise at their command.

2.3. However, evidence suggests³ that:

- a. Mutual funds play a passive role in corporate governance of their portfolio companies. They seldom, if ever, review the agenda of shareholders, do not attend shareholders meetings, and do not exercise their voting rights, unless something goes drastically wrong or if a takeover situation occurs.
- b. Foreign Institutional Investors (herein after referred as “FIIs”) tend to exercise their ownership rights more actively.
- c. Insurance companies and banks are somewhat more active than domestic mutual funds but less active than FIIs.

2.4. The revised OECD Principles of Corporate Governance⁴ specifically address the concern over institutional investors acting in fiduciary capacity and whose activities have a clear “public good” dimension, remaining passive over exercising their shareholders’/creditors’ rights in the portfolio companies. They recommend a detailed and constructive dialogue on internal governance norms.

2.5. This Paper draws on the revised OECD Principles of Corporate Governance, and on other secondary material⁵ while suggesting the norms for effective internal governance.

2.6. Investment by institutional investors represents nearly 4-5% of Gross Domestic Product (GDP). Banks hold nearly 52%, Insurance companies 22%, Foreign Institutional Investors around 14%, and Mutual funds about 9%. Investment of institutional investors in listed companies in terms of market

³ The World Bank Paper *op cit*.

⁴ I.I.F of OECD Principles of Corporate Governance, 2004 (Revised) *inter allia*, mentions....

1. Institutional investors acting in a fiduciary capacity should disclose their overall corporate governance and voting policies with respect to their investments, including the procedures that they have in place for deciding on the use of their voting rights.

2. Institutional investors acting in a fiduciary capacity should disclose how they manage material conflicts of interest that may affect the exercise of key ownership rights regarding their investments.

⁵ A list of a few relevant references is provided in Appendix 1.

capitalisation represents more than 12 per cent of GDP. Total equity investment by institutional investors is about Rs. 3500 billion. Institutional investors' investment represents 21% (in terms of market capitalisation) of all listed stocks. Of them, FIIs hold 12%, Development Financial Institutions (including insurance companies) 6% and mutual funds 3%. Provident funds and Pension funds are also allowed to invest in equity. This may bring additionally about Rs.70 billion.⁶

2.7. Thus, investment by institutional investors involves a considerable public stake. Therefore, it is important that they should discharge their responsibilities upholding the principles of fiduciary relationship. For doing so, they should have an effective and adequate internal governance mechanism that ensures

- (i) effective exercise of their rights;
- (ii) meaningful dialogue with portfolio companies; and
- (iii) adequate disclosures to take informed decisions on related matters.

2.8. Despite having high involvement of public stake and significant potential to influence the governance practices in their portfolio companies, institutional investors as a class are not subject to prescribed standards of governance, as most of them are not listed on the stock exchanges. Issues which are central to the business of institutional investors, like, broad portfolio composition, investment process or credit appraisal, voting policy, etc., are not adequately made known to their beneficiaries⁷.

⁶ India: Role of Institutional Investors in the Corporate Governance of their Portfolio Companies; June, 2005; Finance and Private Sector Development Unit, South Asia Region, The World Bank.

⁷ Beneficiary, in this Paper, is the person from whom the institutional investor receives funds which is wholly or partly, directly or indirectly, available for investment in securities.

3. Philosophy

3.1. Significant portion of household savings of the economy flow into institutional investors with varied objectives and hence they are under obligation to act as “guardian of public interest” while discharging their role and responsibilities.

3.2. Since institutional investors manage “others’ money”, they are expected to observe the principles of fiduciary relationship while designing their internal governance structure, system, and processes.

3.3. Often, institutional investors provide multiple services in financial markets leading to situations having potential of conflict of interest. These situations should be avoided.

3.4. When an individual investor invests in or lends to any of the institutional investors, he buys safety of his investment, an appropriate mix of regular income and an expectation of capital appreciation depending on the risk disclosures, and the skill of the asset manager (hereinafter referred as “AM”)⁸.

3.5. Implementation of best corporate governance practices by institutional investors requires striking a fine balance between the general regulation and the self-regulation.

3.6. Enhanced transparency and accountability strengthen the investors’ confidence, bolster the stability, and build the resilience in the financial markets.⁹

3.7. Encouraging competition and innovation among institutional investors helps in widening and deepening the investment choices in the financial markets.

⁸Asset Manager (AM), in this Paper, is a person responsible for investment of investible surplus of the institutional investors. In common parlance, he is also known as fund manager or investment manager.

⁹ OECD Principles of Corporate Governance, 2002.

4. Process

4.1. Institutional investors shall organize themselves in such a way that their Board, the AM, and their employees should not get into situations of conflict of interest. Wherever such conflict is unavoidable, various accepted protection mechanisms should be put in place to mitigate its adverse impact on beneficiaries' interests.

4.2. Institutional investors shall act independently in taking investment decisions and ensure that their investment and related decisions, including the exercise of their beneficiaries' rights are taken primarily in the interest of the beneficiaries.

4.3. Institutional investors shall refrain from investing in the companies not conforming with good governance practices.

4.4. Institutional investors shall clearly identify the responsibilities of the AM and the other service providers. They should also put in place appropriate independent performance appraisal systems.

4.5. Institutional investors shall clearly disclose/inform the extent of their compliance with the norms, recommended herein, in their periodical communications to the beneficiaries.

5.Applicability

5.1. The World Bank Paper identifies following categories of entities in institutional investors.

1. Banks
2. Development Financial Institutions
3. Insurance Companies
4. Mutual Funds and other funds¹⁰
5. Provident Funds
6. Foreign Institutional Investors
7. Private Pension funds (proposed)

Regulatory backdrop and salient features of these entities are provided in Table 1 and Tale 2 below.

This Paper restricts its scope to institutional investors mentioned at (1) to (5) above. Further, “other funds” in (4) above is also not covered here, as presently they are not broad based funds. However, the Core Group is conscious of the impact of such “other funds”.

5.2. Though Foreign Institutional Investors have invested substantial funds in Indian secondary markets, the securities market regulator or the banking regulator or Government of India has limited influence over their internal governance mechanisms for the following reasons:

- a. they are incorporated outside India;
- b. except for their registration and restriction on their investment related matters in Indian securities markets, the regulator is believed to have little influence over their internal governance system; and
- c. their investors, by definition, are foreigners and non-resident Indians.

The Core Group is aware of their potential influence in Indian companies and therefore Indian society at large, through the ownership and creditors’ rights they enjoy over their investments in Indian markets. However, in an attempt to evolve uniform norms for Indian institutional investors, this category of institutional investor is not specifically dealt with because of the practical difficulty involved in ensuring compliance of internal governance norms.

5.3. Private pension funds are not considered here as their nature and regulatory structure are evolving and yet to be notified. Hence, at this stage, it may not be feasible to decide whether these norms should be applicable to them and to what extent.

5.4. Applicability of proposed norms is the most difficult issue in this exercise. The list of institutional investors includes entities of different structures with

¹⁰ This Paper deals with only mutual funds. Other funds are not covered here.

varied objectives, operating in various domains, and subjected to various regulatory regimes.

5.5. Institutional investors covered herein can be broadly classified into two categories. First category includes those for whom investment activity is primary activity, such as, mutual funds, provident funds, etc. Second category includes those for whom investment activity is an allied activity, their primary activity being banking, insurance, etc.

Table 1: Regulatory framework for institutional investors

Institutional Investor	Regulatory Agency	Legislation
Banks	Reserve Bank of India	Banking Regulation Act, 1949 Reserve Bank of India Act, 1934
Development Financial Institutions	Reserve Bank of India	Banking Regulation Act, 1949 Reserve Bank of India Act, 1934
Insurance Companies (Life and Non-Life)	Insurance Regulatory and Development Authority	Insurance Regulatory Development Act, 1999 Life Insurance Corporation of India Act, 1956 General Insurance Corporation Act, 1972 Insurance Act, 1938
Mutual Funds	Securities and Exchange Board of India	Securities Exchange Board of India Act, 1992 SEBI (Mutual Fund) Regulations, 1996 which include the Code of conduct
Foreign Institutional Investors	Securities and Exchange Board of India	Securities Exchange Board of India Act, 1992 SEBI (Foreign Institutional Investors) Regulations, 1995 which includes the Code of conduct
Provident Fund	Central Board of Trustees Ministry of Labor Employee Provident Fund Organization	Employees Provident Fund Act, 1952
Proposed Private Pension Fund Managers	Pension Fund Regulatory and Development Authority	Legislation pending in Parliament

Table 2: Salient features of institutional investors

Institutional investors	Traded on the stock exchange, and Applicability of Clause 49 ¹¹	Ownership	Involvement of public at large as (in what capacity)	Investment focus & objective	Equity exposure
Banks	Yes; only listed ones.	By and large, Government of India is still the major shareholder followed by the promoter, other institutional and retail investors.	Investors as shareholders; and the depositors as creditors.	Maximizing the spread; depositors expects security of investment.	Limited by Regulations prescribed by Reserve Bank of India.
Insurance companies	No	Private investors as well as Government of India; or Indian owner as majority.	Customers – policy holders.	Increasing focus on Unit Linked Insurance Plan (ULIP) ¹² .	Limited by the statute for traditional products; while in case of Unit Linked Insurance Plan (ULIP), it is mandated by unit holders.
Mutual funds	Yes; however, disclosure norms prescribed by Securities Exchange Board of India applicable.	Owned by the Trustees for unit holders.	Unit holders as owners of the Fund/Scheme.	Depending on schemes.	High to low depending upon specific scheme.
Foreign Institutional Investors	No	Foreign entities.	Largely private equity, hedge and endowment funds outside India.	Diversification benefits; profile varies from low to extremely high risk.	High; however, their exposure to Debt funds is restricted.
Provident Funds	No	Collective ownership of members.	Employees of the member entities.	Preference for security of investment with reasonable returns; often rate of return is prescribed time to time.	Limited by the proposed statute.

¹¹ Clause 49 is one of the clauses under Listing Agreement signed by the company for continued listing with the stock exchange. Clause 49 prescribes the structural requirements of Corporate Governance for the company, and the disclosure requirements of Corporate Governance Report which is required to be a part of the Annual Report of the company.

¹² One of the popular schemes that offers insurance cum investment benefits.

6. Broad principles

6.1. Proposed norms are guided by following broad principles:¹³

- (i) the governance structure should ensure an appropriate division of operational and supervisory responsibilities, and the accountability and suitability of those vested with such responsibilities; and
- (ii) institutional investors should have appropriate control, communication, and incentive mechanisms that encourage fair decision making, proper and timely execution, transparency, and regular review and assessment.

6.2. Proposed norms are based on the following the broad premises:

- (i) creating a broader internal governance framework without going into the micro issues;
- (ii) preference over governance through supervision rather than through restrictive rules and wide ranging prohibitions; and
- (iii) to be consistent with accepted global governance practices.

6.3. Proposed norms are intended to serve as reference points and are evolutionary in nature. They should be reviewed in light of dynamically changing context. Institutional investors should from time to time innovate and adapt their governance practices to exploit new opportunities and meet higher expectations. The norms proposed herein, are general norms that may enable institutional investors to draw their internal governance structure, systems, and processes.

6.4. The proposed norms are in the nature of guidelines rather than rules, and expected to serve as a code of conduct.

¹³ Extracted from OECD Guidelines for pension funds as well as insurers.

7. Major issues

7.1. Conflict of interest

7.1.1. Situations of conflict of interest are all pervasive in financial markets. The Trustees¹⁴, the AM or any other employee of institutional investors expected to act in fiduciary capacity, confront such situations more often than any one else in financial markets. Therefore, they need to be careful and try to avoid situations of conflict of interest involving themselves and their associated constituencies. Situations of conflict of interest faced by institutional investors, either at institutional level or at individual level, while taking investment decisions, are many¹⁵.

7.1.2. SEBI, RBI, IRDA have taken / introduced number of regulatory as well as other measures to mitigate adverse impact of conflicts of interest in their respective regimes.

7.1.3. Institutional investors shall consciously put the interests of the beneficiaries before the interests of any other persons, like, the AM, the Chief Executive Officer, the Trustees, the sponsor or promoter, etc. However, while maximizing the interests of the ultimate beneficiaries, no law or regulation be violated.

7.1.4. Institutional investors shall organize themselves in such a way that their Board, their AM, and their employees should not get into situations of conflict of interest. Wherever such conflict is unavoidable, adequate protection mechanisms should be put in place to eliminate its adverse impact on beneficiaries' interests.

7.1.5. Institutional investors shall make a self-declaration **detailing** the potential conflict of interest they face and the steps taken by them to eliminate such conflict.

¹⁴ The Directors, in case of Trustee Companies.

¹⁵ Few of such situations are:

1. preferential treatment to the wholesale investors against the retail investors, for example, late trading;
2. dealing with multi-products with the same set of clientele, for example, tying up deposits with insurance or mutual funds products;
3. investment in securities of the sponsor or the promoter related entities;
4. *inter*-institutional investors board lock-ins;
5. holding of price sensitive unpublished information; and
6. any other situation where the institutional investor remain indifferent or passive where it is expected to proactively protect interests of the beneficiaries, under fiduciary relationship.

7.2. Governing structure

7.2.1. A supervisory structure (herein after referred as “the Board”) depending upon the category of institutional investors, shall be identified. It shall be ultimately liable for discharging the responsibilities of institutional investors in fiduciary capacity. It may be known differently in different types of institutional investors, for example, for

- i. mutual funds and trusts, Board of Trustees;
- ii. companies, Board of Directors;
- iii. provident fund, Central Board of Trustees.

7.2.2. The Board should be ultimately responsible for the management of the funds¹⁶ and safeguarding the interests of the beneficiaries.¹⁷

7.2.3. It is advisable to have uniform internal governance structure for investment activities across institutional investors. However, due to the complexities and the variety of their objectives and constitutions, as explained in para 5.4 and Table 1 & 2, it would be impractical to recommend uniform changes at the Board level in various institutional investors, as the same may require amendments in several statutes.

7.2.4. However, in order to achieve this uniformity in internal governance of institutional investors, an advisory structure in the nature of a Board committee, namely, Investment Advisory Committee (hereinafter referred as “IAC”) be created. IAC shall be entrusted with the duty of overseeing the investment activities of institutional investors. Similar to constitution and functioning of other Board committees under Clause 49 of Listing Agreement, like, Audit Committee, IAC shall also assist the Board to ensure that the investment activities are carried out upholding the principles of fiduciary relationship. IAC shall remain as an advisory structure assisting the Board to discharge its investment related responsibilities effectively.

7.2.5. Where there is an amalgam of investment activities and commercial activities, IAC will provide requisite focused attention on the investment activities. IAC shall also bring in much needed structural uniformity in investment activities across institutional investors. The new structural set up would provide for more accountability in the governance of the investment activities in the fiduciary capacity by institutional investors.

7.2.6. In order to ensure the accountability of the investment operations, IAC should be responsible to the Board for its actions. It should also be liable for dereliction of its duties.

¹⁶ Fund, means portfolio of investment, including equity as well as debt.

¹⁷ Beneficiaries include ultimate beneficiaries of this investment, be it a shareholder or unit holder, or policyholder.

7.2.7. The duties of IAC, in addition to its advisory role, include overseeing investment activities through AM. IAC should ensure:

- a. periodically reporting of performance of AM to the Board;
- b. independence of AM;
- c. regulatory compliances in investment activities;
- d. exercise of rights on behalf of the beneficiaries in fiduciary capacity;
- e. adequacy of disclosure norms;
- f. effectiveness of grievance redressal mechanism; and
- g. adequacy of internal control system and fairness in process of investment decisions.

7.2.8. IAC shall be composed of members having adequate expertise and experience in the domain of investment in securities markets. At least fifty percent of IAC shall be comprised of independent directors. The Chairman of IAC shall be an independent director. For the purpose, independent director means, “independent director” as defined in Clause 49 of the Listing Agreement.

7.2.9. The Board should follow fair and transparent nomination processes for induction of members to IAC.

7.2.10. Though the structural changes suggested by the Core group is for internal administrative set up to be adopted by institutional investors, it would be advisable to give this set up a statutory status, over a period of time, so as to make it more accountable and responsible. For this purpose, legal backing will have to be provided through appropriate legislations.

7.3. Audit

7.3.1. Investment activities of institutional investors shall be subjected to a detailed internal audit, including the matters which may have a significant adverse impact on the interests of the beneficiaries.

7.3.2. Board should ensure that the task of carrying out internal audit of investment activities is specifically assigned to the internal auditor.

7.3.3. The internal auditor shall submit his report to the Board through IAC.

7.3.4. The qualifications, if any, made in the report, shall be disclosed in the annual report of the Board to the shareholders with their comments there on.

7.3.5. Constitution of an Audit committee shall be compulsory for each institutional investor. The essentials of its composition, rights, responsibilities and the role it has to perform, the prescription related to the Audit committee under Clause 49 shall be followed. No separate Audit committee is required to be constituted for institutional investors which are already covered under Clause 49 of the Listing Agreement.

7.4 Role of Asset Manager

7.4.1. Board shall appoint an AM to manage the investment activities of the funds and the other related administrative processes on the recommendations from IAC.

7.4.2. AM should make the investment decisions solely in the interest of the beneficiaries upholding principles of fiduciary relationship. It should follow a healthy investment policy that would result in value addition, minimize risks, and earning competitive returns through responsible investing consistent with the Board's fiduciary duties.

7.4.3. While discharging its fiduciary responsibilities, AM must place the interests of beneficiaries before its own. It needs to preserve the confidentiality of information provided by its investors or customers within the scope of Manager-owner or Manager-customer relationship.

7.4.4. AM should have a clear public good dimension in taking investment decision.

7.4.5. AM should also ensure fairness, and exercise diligence while taking investment and investment related decisions¹⁸.

7.4.6. On coming across, any suspected investment related illegal activities, the AM should report the same to IAC or any appropriate authority.

7.4.7. AM shall report every quarter of its activities to the Board through IAC.

¹⁸ This, *inter alia*, requires AM to:

1. ensure consistency with the stated objectives;
2. formulate appropriate benchmarks for investment performance and create an appropriate compensation structure to provide right incentives for good performance;
3. determine and disclose appropriate investment valuation methods;
4. not to act upon insider information or cause others to act on material nonpublic information and to indulge in any kind of unfair trade practices;
5. employ adequate human and technological resources to analyse, implement, and follow investment decisions, and provide adequate disclosures and information, in particular, qualification and experience of persons directly involved in the funds management;
6. create a business continuity plan to address disaster recovery; and
7. ensure effective internal audit and adequate risk management, and a mechanism for regulatory compliance.

7.5 Exercise of shareholders/creditors rights

7.5.1. AM shall exercise any shareholder or creditor rights arising out of the investments independently and exclusively in the interest of the beneficiaries.

7.5.2. AM shall take informed decisions while exercising shareholders' or creditors' rights, in particular, voting rights. For this purpose, it should develop its own voting guidelines, document them, and get them approved by IAC time to time.

7.5.3. These guidelines, shall, necessarily, include in what manner AM shall exercise its shareholders' or creditors' rights based on the broader merits of its philosophy, its possible impact on beneficiaries' interests, and cost-benefit analysis.

7.5.4. In general, AM shall exercise its voting rights and participate in the general meetings, however, when it does not, reasons should be recorded. In case, proxy is given, such proxy should be based on the guidelines stated to in para 7.5.3 above.

7.5.5. AM shall disclose the details of the non-routine and significant voting decisions (to the beneficiaries) on the website of the institutional investor.

7.5.6. AM shall ensure that unpublished price sensitive information available from the portfolio companies is not made use of for taking investment decisions.

7.5.7. AM shall not resort to any action or be a party to any action that would adversely affect the integrity of the securities market.

7.6. Disclosures

7.6.1. IAC shall ensure that the quality of disclosures be maintained. It should ensure that AM

- (i) makes adequate disclosures on an ongoing and timely basis; and
- (ii) that the disclosures are presented in a format that communicates the information effectively.

7.6.2. All material facts regarding internal as well as external governance mechanisms of institutional investors are disclosed.

7.6.3. In order to observe discipline in disclosures, AM shall make:

- a. Periodic disclosures; and
- b. Continuous disclosures

7.6.3.1. Periodic disclosures include an annual report on:

- a. governance of IAC and AM (in particular, nomination and composition);
- b. investment objectives and philosophy;
- c. major items of annual financial statements and auditor's report;
- d. details of important voting decisions;
- e. qualification and experience of persons directly involved in the fund management.
- f. methodology of performance measurement and choice of benchmark(s);
- g. details on grievance redressal;
- h. investment valuation methods; and
- i. any other related material information.

7.6.3.2. Continuous disclosures include update on some of the material developments since last disclosure. They include, in particular, following:

- a. any changes in AM;
- b. performance reporting;
- c. regulatory or disciplinary action against the institutional investor and/or its constituencies; and
- d. changes in investment objectives or philosophy.

7.6.4. All the disclosures mentioned above should be uploaded on the website of institutional investors.

7.7 Demonstrative role

7.7.1. Institutional investors often dominate the markets. They often set standards for others in the markets. Practices adopted by them normally set an example for small players in the markets. Being large players in the markets, they carry demonstrative influence on the other market players and intermediaries. Small players generally look up to them for their conduct and practices in the market.

7.7.2. Institutional investors need to demonstrate a concern beyond commercial interests. They need to be careful and concerned about the impact of their actions as they may have a bearing on the integrity of the markets.

7.7.3. Institutional investors shall make reference to competent authority, whenever they come across or notice any practice(s) or the conduct of any market player(s) that has potential to adversely affect the integrity and efficiency of the markets.

7.7.4. Institutional investors may consult each other on specific issues to take a collective view or on issues concerning basic shareholder rights, and share information, in the interests of the beneficiaries, ensuring regulatory compliance.¹⁹

¹⁹ II.G. of OECD Principles of Corporate Governance (Revised, 2004).

7.8. Grievances redressal

7.8.1. IAC shall ensure that there is adequate and effective mechanism to redress the grievances of the beneficiaries.

7.8.2. Details of redressal of beneficiaries' grievances, such as, number of grievances received, number of grievances resolved, aging schedule of grievances, etc. shall be disclosed on the website and also in the annual report of institutional investors.

7.9. Compliance with these norms

7.9.1. Institutional investors shall disclose compliance of these norms in their annual report and on they website. They shall also report reasons for deviations from or non-compliance of these norms.

7.9.2. Initially, disclosure regarding compliance is suggested. However, depending on the exigencies in the future, certification may be considered to ensure effective implementation.

Annexure 1

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