

ICSI GUIDING PRINCIPLES ON STEWARDSHIP



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

IN PURSUIT OF PROFESSIONAL EXCELLENCE

Statutory body under an Act of Parliament

(Under the jurisdiction of Ministry of Corporate Affairs)

ICSI Guiding Principles *on* Stewardship (IGPS)



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ICSI House, 22, Institutional Area, Lodi Road, New Delhi 110 003

tel 011-4534 1000 fax +91-11-2462 6727

email info@icsi.edu website www.icsi.edu

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THE INSTITUTE OF COMPANY SECRETARIES OF INDIA

ICSI House, 22, Institutional Area, Lodi Road,
New Delhi 110 003

Phones : 011-4534 1000, 4150 4444 • **Fax** +91-11-2462 6727

E-mail info@icsi.edu • **Website** www.icsi.edu

K.Rajaraman
Chairperson



August 14, 2024

FOREWORD

It gives me immense pleasure to present the ICSI Guiding Principles on Stewardship (IGPS), a landmark initiative that underscores the critical role of Institutional Investors and Service Providers in shaping the future of responsible investment. The launch of these guiding principles at the ICSI Middle East Conference to be held on 4-6 September, 2024 at Abu Dhabi, UAE on the theme 'Responsible Investment for Sustainable Future' reflects the growing importance of stewardship in the global financial ecosystem and highlights India's commitment to aligning with international best practices.

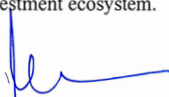
2. As we navigate an increasingly complex and interconnected world, the need for robust stewardship frameworks has never been more pressing. The IGPS offers a comprehensive and principle-based approach to stewardship, emphasizing the integration of Environmental, Social, and Governance (ESG) considerations into investment decision-making processes. By doing so, it ensures that the interests of investors are safeguarded while promoting sustainable development goals that are essential for long-term value creation.

3. The stewardship responsibilities outlined in the IGPS go beyond mere compliance; they represent a commitment to fostering transparency, accountability, and ethical governance. These principles empower Institutional Investors and Service Providers to actively engage with investee entities, advocate for responsible business practices, and contribute to the overall resilience and sustainability of the financial markets.

4. The International Financial Services Centres Authority (IFSCA) supports this initiative, recognizing the significant impact that effective stewardship can have on the global financial landscape. The IGPS aligns with our vision of promoting responsible and sustainable financial practices, and I am confident that it will serve as a valuable tool for all stakeholders in the investment community.

5. I commend the Institute of Company Secretaries of India (ICSI) for their foresight and dedication in developing these guiding principles. I am sure that the IGPS will undoubtedly play a pivotal role in enhancing the governance standards of institutional investments, not only in India but across the world.

6. I encourage all Institutional Investors and Service Providers to adopt these principles and to actively participate in building a more responsible and resilient investment ecosystem.



(K. RAJARAMAN)

INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

Second & Third Floor, PRAGYA Tower, Block 15, Zone 1, Road 1C, GIFT SEZ, GIFT City,
Gandhinagar-382 355, Gujarat, India. P: +91 79 6180 9800

PREFACE

Stewardship is all about responsible management of resources on behalf of varied stakeholders by focusing on long-term value creation and sustainable benefits which enhances overall economic, social and environmental wellbeing. Stewardship improves the overall investment ecosystem while protecting the interest of ultimate Investors.

Institutional Investors make huge investments in capital markets on behalf of their clients and/or beneficiaries. Worldwide, they are expected to invest responsibly by stepping up their monitoring activities and engagement efforts with Investee entities on various Environmental, Social and Governance (ESG) parameters. These actions are generally referred to as “Stewardship Responsibilities” with an objective to safeguard the interest of clients and/or beneficiaries.

Institutional Investors, while discharging their stewardship responsibilities, may also avail the services of Service Providers such as investment consultants, proxy advisors, data and research providers, etc. to get the best information about entities. As a result, Service Providers also play a key role in the investment decisions as they provide necessary information that support the Institutional Investors to fulfil their stewardship responsibilities.

Globally several frameworks are evolved to codify the stewardship responsibilities of Institutional Investors. By taking a step ahead in line with Institute’s vision of “to be a global leader in promoting good corporate governance”, we are pleased to introduce **ICSI Guiding Principles on Stewardship (“IGPS”)**, which is the culmination of various practices followed while exercising stewardship responsibilities in different jurisdictions.

The IGPS aim to sets out certain best practices in relation to Institutional Investors’ and Service Providers’ stewardship obligations, policies and processes. The IGPS followed a principle-based approach which are kept jurisdiction neutral for their global relevance.

I place on record my sincere thanks to all members of the ESG and Sustainability Board (ESGSB) of ICSI for their valuable contribution

during formulation of IGPS under the leadership of CS Ranjeet Pandey, Chairman-ESGSB, CS Ashish Garg, Co-Chairman, ESGSB and with the presence of my Council colleague CS R. Venkata Ramana, on the ESGSB.

I commend the dedicated efforts put in by CS Rakesh Kumar, Deputy Director, ICSI and CS Alex VS, Executive (Academics), ICSI in bringing out these principles under the guidance of CS Banu Dandona, Director, ICSI and overall supervision of CS Asish Mohan, Secretary, ICSI.

I urge upon Institutional Investors and Service Providers to adopt the IGPS to promote the responsible investment and reporting thereon in true letter and spirit.

Improvement is a continuous process and equally applicable to these principles which can be reviewed for further advancement of responsible investment ecosystem. I would personally be grateful to receive your constructive feedback for further advancement of these principles.

(CS B. Narasimhan)

President

The Institute of Company Secretaries of India

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INTRODUCTION

The role of Institutional Investors and Service Providers in capital markets is of paramount importance. Worldwide, they are expected to invest responsibly on behalf of their clients and/ or beneficiaries by stepping up their monitoring activities and engagement efforts with Investee entities on various Environmental, Social and Governance (ESG) parameters. These actions are generally referred to as “Stewardship Responsibilities” with an objective to safeguard the interest of clients and/or beneficiaries.

Institutional Investors make huge investments in capital markets on behalf of their clients and/or beneficiaries. They have large investible funds at their command for trading in securities, real estate and other investment assets. They function as highly specialized investors on behalf of others and are stewards of assets owned on behalf of clients and/or beneficiaries including individual savers, pensioners, and holders of long-term insurance policies etc., who largely rely on Institutional Investors as their agents to act in their best interests, protect and grow long term investment value in the spirit of stewardship.

Stewardship is about preserving and enhancing long-term value as part of a responsible investment approach. Environmental, social and governance aspects, particularly climate change, are becoming important factors for investors to take into account while making investment decisions and exercising stewardship. Institutional Investors can yield significant influence in the management of entities as they are entitled to exercise the voting rights in an entity, have regular meetings with senior management of the entity including CEOs/ Directors/ Key Management Personnel, etc. assess industry conditions and study in depth the prospects for every entity they intend investing in.

Institutional Investors, while discharging their stewardship responsibilities, may also avail the services of Service Providers like investment consultants, proxy advisors, data and research providers, etc. to get the best information about investee entities.

As a result, Service Providers play a key role in the investment decisions as they provide necessary information that support the Institutional Investors to fulfil their stewardship responsibilities.

Globally, the Principles of Stewardship are codified for Institutional Investors/ Service Providers to ensure transparency while discharging their ownership and governance obligations in relation to the clients and/or beneficiaries. Stewardship improves the overall investment ecosystem while protecting the interest of ultimate Investors.

GENESIS

The term ‘stewardship’ was used for the first time by the UK’s Institutional Shareholders’ Committee Code of 2009, however, the same term can be found much earlier in the context of the stewardship theory of management, which defines situations in which managers act as stewards.

Historically, the UK was forerunner in the development of stewardship responsibilities which was formalised in the UK Stewardship Code introduced by the Financial Reporting Council (FRC) in 2010 and subsequent editions in 2012 and 2020. Shortly after the UK Code, similar frameworks began to emerge worldwide and today there are various stewardship codes globally.

In India, stewardship guidelines for insurers were brought in by the Insurance Regulatory and Development Authority of India in the year 2017 which were subsequently updated in the year 2020. Similarly, the Pension Fund Regulatory and Development Authority’s Common Stewardship Code was unveiled in the year 2018, followed by the Securities and Exchange Board of India (SEBI’s) Stewardship Code in 2019.

SCOPE AND NEED OF IGPS

The ICSI Guiding Principles on Stewardship (“IGPS”) is the culmination of various practices followed while exercising stewardship responsibilities in different jurisdictions. The IGPS aim to sets out certain best practices in relation to Institutional Investors’ and Service Providers’ stewardship obligations, policies, and processes. The IGPS provides a framework to implement stewardship practices in fulfilling Institutional Investors’ and Service Providers’ fiduciary obligations towards their clients and/or beneficiaries. The IGPS is developed keeping in view the existing and emerging market practices, regulations and the best practices followed worldwide.

Introduction

Being a steward, it is the responsibility of the Institutional Investors, to ensure that their investee entities are advancing on the Sustainable Development Goals (SDGs) by respecting widely accepted standards and principles in the areas of labour, environment protection, anti-corruption, human rights, etc.

The IGPS is structured under the principle-based approach and the adoption is voluntary in nature. Upon becoming signatories to IGPS, entities are obliged to apply all its principles. Any deviation along with the reason should be disclosed in the reporting formats annexed at the end of IGPS.

DEFINITIONS

Associate(s): in relation to Institutional Investor/ Service Provider, includes a person –

- i. who, directly or indirectly, by himself, or in combination with relatives, owns or controls shares carrying not less than ten percent of the voting rights of the Institutional Investor/ Service Provider; or
- ii. in respect of whom the Institutional Investor/ Service Provider, directly or indirectly, by itself, or in combination with other persons, owns or controls shares carrying not less than ten percent of the voting rights; or
- iii. majority of the directors of which, own or control shares carrying not less than ten percent of the voting rights of the Institutional Investor/ Service Provider; or
- iv. whose director, officer or employee is also a director, officer or employee of the Institutional Investor/ Service Provider.

Beneficiary(s): A beneficiary may be an individual, group of individuals or an entity who is designated to receive the benefits emerging out of property/stake/right owned by someone else on their behalf.

Client(s): Client(s) refers to the party that receives services, or assistance from another party in exchange for consideration and may include a beneficiary.

Governing Body: Governing Body shall include,

- a) the board of directors in case of a company;

- b) Governing Council of a body corporate/statutory body;
- c) Board of Trustees in case of trusts;
- d) Managing Committee or the body of persons empowered to function as such in case of cooperative societies;
- e) Partners in case of LLPs/Partnership Firms;
- f) In the case of any other artificial juridical person not falling within any of the preceding sub- clauses, the body of persons responsible for governance.

Investee Entity: An entity where the Institutional Investors have invested in or intend to invest funds on behalf of their client and / or beneficiaries.

Institutional Investor(s): Institutional Investor(s) include asset owners such as pension schemes, insurers, foundations, endowments, local government pension pools and sovereign wealth funds, asset managers, real estate investment trusts, banks, mutual funds and hedge funds.

Service Provider(s): Service Provider(s) include investment advisors/ consultants, proxy advisors, research analysts, data and research providers that support asset owners and asset managers to exercise their stewardship responsibilities.

Stakeholder(s): Stakeholder(s) may include anyone who is affected by or can affect the actions, decisions, or outcomes of the project or entity.

**ICSI GUIDING PRINCIPLES
ON
STEWARDSHIP (IGPS)**

**PART A:
FOR INSTITUTIONAL
INVESTORS**

IGPS A1: DEFINING MISSION, INVESTMENT PHILOSOPHIES, STRATEGY AND GOVERNANCE CULTURE

The mission, investing philosophies, strategy, and governance culture of Institutional Investors should enable stewardship that builds long-term value creation for their clients with sustainable benefits to the economy, the environment, and the society.

1.1 Guidance

- 1.1.1 Institutional Investors should formulate a comprehensive policy explaining their mission and an outline of governance culture, stewardship objectives, approaches and processes, values, business model and strategy.
- 1.1.2 The policy should explain the Institutional Investors' investing philosophies, including the elements they believe are crucial to achieve the intended results from their investments.
- 1.1.3 The policy should further explain how the Institutional Investors intend to fulfil their stewardship responsibilities described in IGPS.
- 1.1.4 In case any of the business activities are outsourced, the policy should provide for the oversight mechanism to ensure that in such cases, stewardship responsibilities are executed properly and diligently.
- 1.1.5 The policy should be reviewed and updated periodically. The updated policy should be publicly disclosed on the Institutional Investors' website.
- 1.1.6 The policy should provide for guidance and training of the personnel who are involved in implementation of the stewardship policy and the IGPS.

1.2 Reporting Requirements

While reporting, Institutional Investors should disclose:

- 1.2.1 The mission, governance culture, values, business model, stewardship objectives, approaches and processes and

strategy that guides the entity's decisions, activities, and goals.

- 1.2.2 Overview of desired stewardship responsibilities and achieved results in relation to IGPS.
- 1.2.3 Details of stewardship policy, approving authority and website link where policy is published.
- 1.2.4 The extent to which stewardship responsibilities have been outsourced and relied upon.
- 1.2.5 Details of review of the stewardship policy and reasons thereof alongwith history of previous reviews, if any.
- 1.2.6 Details of guidance and training provided during the reporting period to the personnel involved in implementation of the stewardship policy and the IGPS.

IGPS A2: INTERNAL GOVERNANCE

Institutional Investors' internal governance and resources are the foundation to the effective stewardship.

2.1 Guidance

- 2.1.1 Institutional Investors' internal governance should be driven by their primary fiduciary duty to preserve and enhance long term value which is aligned with the interest of their clients and /or beneficiaries.
- 2.1.2 Institutional Investors should have necessary capacity and resources to effectively manage and discharge their stewardship obligations.
- 2.1.3 Institutional Investors should ensure that the governance structure and processes within their entity enable oversight and accountability for effective stewardship.
- 2.1.4 Institutional Investors should ensure that their governance structure is consistent with the good corporate governance practices and subject to periodic independent review.
- 2.1.5 The governing body of Institutional Investors should conduct regular evaluations, including periodic third-party led evaluations, to ensure that they meet expectations of accountability and effectiveness.
- 2.1.6 Institutional Investors should be guided by a culture of good governance that reflects their values and support their fiduciary duty towards their clients. They should have in place a code of ethics or conduct to mandate adherence to these values and duties.
- 2.1.7 The governing body of Institutional Investors is ultimately accountable for ensuring that the stewardship responsibilities of Institutional Investors are executed properly. Hence, they should set a tone at the top and ensure that a framework is in place for the effective execution of stewardship responsibilities.

- 2.1.8 Institutional Investors should consider their place in the chain of responsibility when it comes to stewardship and be ready to collaborate with others in the investment chain in order to protect and enhance long term value of their clients.
- 2.1.9 Institutional Investors should design remuneration structures and reward programs for their workforce in such a way that it incentivizes them to integrate stewardship while making investment decision in alignment with the interests of their clients.
- 2.1.10 Institutional Investors should design mechanism for effective and better utilisation of the services outsourced, if any, and obtain periodic affirmation from the Service Provider on-
 - i. the principles outlined in the IGPS to the extent required for the assigned work and
 - ii. continued adherence to the principles of the IGPS.
- 2.1.11 Institutional Investors should establish necessary procedures and internal systems for monitoring the trading of securities by their directors and employees and others involved in the decision making process, in the securities of their clients, in accordance with applicable securities laws.
- 2.1.12 Institutional Investors should maintain all records in relation to stewardship obligation either in physical or electronic form and preserve the records for a minimum period of eight years.
- 2.1.13 Institutional Investors should appoint a compliance officer who shall be responsible for monitoring overall internal governance including the adherence to the IGPS and compliance of applicable laws.

2.2 Reporting Requirements

While reporting, Institutional Investors should disclose:

- 2.2.1 Governance structure in place and its effectiveness in supporting their stewardship responsibilities.

- 2.2.2 Governance mechanism in relation to organisational and workforce structure, their seniority, experience, qualifications, training and diversity.
- 2.2.3 The details of internal governance mechanism which is used to manage and perform stewardship obligations while availing services from Service Providers including investment in systems, processes, research and analysis.
- 2.2.4 Periodic third-party led evaluations including positive and negative remarks.
- 2.2.5 How the entity's governance culture support their fiduciary duty and details of code of ethics or conduct and its reviews.
- 2.2.6 Details of procedures and internal systems for monitoring the trading of securities by its directors and employees and others involved in the decision-making process.
- 2.2.7 Details about appointment or change of compliance officer.

IGPS A3: MONITORING THE INVESTEE ENTITIES

Institutional Investors should regularly monitor investee entities in order to assess their performance and long-term potential.

3.1 Guidance

- 3.1.1 Institutional Investors should regularly monitor investee entities to assess their individual circumstances, financial performance, impact to the environment and society, and their long-term potential. When monitoring is delegated to a Service Provider, it is essential to conduct periodic evaluations of the quality and performance of the Service Provider.
- 3.1.2 Institutional Investors should identify –
- i. levels of monitoring for different investee entities (for example - entities where larger investments are made may involve higher levels of monitoring vis-à-vis entities where amount invested is trivial from the point of view of its assets under management).
 - ii. areas for monitoring, which may, inter-alia, include:
 - a. investee entity's business model, strategy and performance - operational, financial, environmental and social etc.
 - b. industry-level monitoring and possible impact on the investee entities.
 - c. internal and external developments that may affect its value and risk faced by investee entities.
 - d. investee entity's approach towards environmental and social matters that may influence its long-term success.
 - e. quality of governance and effectiveness of the governing body of investee entity, leadership team etc.

- f. corporate governance parameters on structure of the governing body such as diversity, experience, presence of independent directors, their area of specialization, time devoted by them, remuneration of key executives, related party transactions, etc.
 - g. value chain's performance and commitment to ESG.
 - h. quality of reporting by investee entity with respect to various laws, regulations and codes including the explanations given for any deviations.
 - i. risks, including Environmental, Social and Governance (ESG) risks.
 - j. manner of dealing with shareholders' rights and grievances etc.
- iii. Mechanism for monitoring, which may, inter-alia, include:
 - a. annual reports, Business Responsibility and Sustainability Reporting (BRSR), BRSR Core, sustainability reports, and other relevant statutory and voluntary reports of investee entities.
 - b. information disclosed by the investee entities on their website.
 - c. various disclosures made by investee entities to the regulators and stock exchanges.
 - d. information available about the investee entities in media.
 - e. specific circumstances of the investee entities, taking into account the legal environment, cultural norms and ownership characteristics.
 - f. engaging with the investee entities particularly to identify situations where there is a risk of loss of value or an opportunity to add significant long-term value.

- 3.1.3 Institutional Investors should consider applicable securities laws while seeking information from the investee entities for the purpose of monitoring.
- 3.1.4 Institutional Investors should periodically review the level and mechanism for monitoring activities to ensure its effectiveness.

3.2 Reporting Requirements

While reporting, Institutional Investors should disclose :

- 3.2.1 Levels of monitoring of different investee entities, areas of monitoring, monitoring mechanism and reasons for classifying into different levels, if any.
- 3.2.2 Compliance of applicable securities laws while seeking information from the investee entities for the purpose of monitoring.
- 3.2.3 Details of periodic evaluations of the quality and performance of the Service Provider in case of outsourcing of monitoring activities.
- 3.2.4 Details of periodical review and measures taken for effectiveness of monitoring activities.

IGPS A4: IDENTIFYING AND RESPONDING TO MARKET-WIDE AND SYSTEMIC RISKS

Institutional Investors should identify and respond to market-wide and systemic risks to safeguard the investment and interest of their clients.

Systemic risk refers to the risk associated with the complete failure of an individual business, a particular sector or industry, or the overall economy. A systemic risk describes the likelihood that a single event could spark collapse in an industry or the wider economy.

On the other hand, “market risk” refers to the threat inherent in the market as a whole. Recessions, difficult economic times, wars, increasing or stagnating interest rates, volatility in currency or commodity prices, among other broad-based problems, can all lead to market risk.

4.1 Guidance

- 4.1.1 In order to manage systemic risks, the Institutional Investors should–
 - i. proactively supervise the investee entities to ensure that they have strong corporate governance structures, robust risk management policies and effective transparency and disclosure policies.
 - ii. ensure that employees in the investment decision be well versed with financial statements in order to help them in predicting the bankruptcy signal and failure probability of their investee entities well in advance.
- 4.1.2 In order to manage market risks, the Institutional Investors should ensure that their portfolios include a variety of asset classes, such as shares, debentures, bills, bonds, real estate, etc. each of which will react differently in the event of a major market change.

For example - an increase in interest rates may make newly issued bonds more valuable, while causing some entity's stocks to decrease in price as investors perceive them to be cutting back on spending. So, making sure that the

portfolio incorporates ample income generating securities will mitigate the loss of value in some equities.

4.2 Reporting Requirements

While reporting, Institutional Investors should disclose:

- 4.2.1 Mechanism for identifying and responding to the market-wide and systemic risks.
- 4.2.2 Effectiveness of the mechanism for identifying and responding to market-wide and systemic risks.

IGPS A5: CONTINUOUS ENGAGEMENT WITH THE INVESTEE ENTITIES

Institutional Investors should engage with the investee entities with the aim of preserving and enhancing long term value of their investment and escalate their engagement activities, wherever required.

5.1 Guidance

- 5.1.1 Institutional Investors should develop a strategic approach to select individual entities for engagement in line with Institutional Investors' own investment strategies and stewardship policies to achieve meaningful and effective engagement with investee entities. The effectiveness of the engagement approach should be reviewed periodically.
- 5.1.2 Institutional Investors' engagement efforts should develop a mutual understanding to achieve the objective of long-term value creation and sustainable growth.
- 5.1.3 Institutional Investors may engage with the investee entities on a range of topics which may inter-alia include strategy, long-term performance, risk, financials, sustainability, governance culture, remuneration and other ESG considerations.
- 5.1.4 Depending on the nature of the investment or the size of shareholding, the scope of engagement may vary to select an appropriate engagement approach with the investee entities.
- 5.1.5 Engagement methods may inter-alia include meeting with the CEO, chairperson, members of the governing body or other senior management personnel, expression of concerns and key issues in writing to the investee entity through established channel of communication and seeking their feedback.
- 5.1.6 Institutional Investors should have an appropriate mechanism in place to enhance stewardship where any area of their concern remains unresolved.

- 5.1.7 Institutional Investors may enhance engagements through various ways including issuing public statements, expressing concerns to independent directors, participating in collaborative engagements, exercising voting rights, convening a shareholders' meeting, seeking governance improvements and/ or damages through legal remedies or arbitration, before considering divesting their investments as a last resort.
- 5.1.8 As a part of the comprehensive policy referred in IGPS A1, Institutional Investors should formulate a detailed policy defining the purpose and approach to the engagement process, how the engagement is prioritised and how it will be escalated in the event their concerns remain unresolved.

5.2 Reporting Requirements

While reporting, Institutional Investors should disclose :

- 5.2.1 Details of selection and prioritizing engagement (for example, key issues and/or size of holding).
- 5.2.2 Methods of engagement used and the extent to which they have been used.
- 5.2.3 Details of engagement for different funds, assets or geographies.
- 5.2.4 Any action or change(s) made by the investee entities as a result of engagement process.
- 5.2.5 Instances where Institutional Investors chosen to enhance their engagement, including the issue(s) and the reasons for the same.
- 5.2.6 Areas of concern that remained unresolved and mechanism adopted for resolving the same.
- 5.2.7 Outcomes of escalation on investment decisions and details of communication of the same to the clients.

Reporting should be fair and include instances where the desired outcome has not been achieved or is yet to be achieved.

IGPS A6: TAKING COLLABORATIVE APPROACH IN EXERCISING STEWARDSHIP RESPONSIBILITIES

Institutional Investors should work collectively with other stakeholders wherever necessary to preserve the interest of their clients.

6.1 Guidance

- 6.1.1 Institutional Investors should be open to collaborate with other investors (both domestic and overseas investors) to leverage the voice of minority investors and exert influence, where required with investee entities.
- 6.1.2 Institutional Investors should collaborate with other investors, subject to market regulations relating to acting in concert, in a way that collectively addresses the issues that may have a material impact on investment performance.
- 6.1.3 The collaborations with other investors could be entity-specific (for example, capital allocation deficiencies), or industry specific such as part of a broader market-based engagement (for example, climate change).
- 6.1.4 Institutional Investors should resort to investors' collective experiences to influence the practices and behaviours of investee entities.
- 6.1.5 Institutional Investors could deepen their involvement with other stakeholders (for example, policy makers, regulators and industry bodies) on issues that affect responsible investment and governance framework.

6.2 Reporting Requirements

While reporting, Institutional Investors should disclose:

- 6.2.1 Rationale behind collaboration with other investors/stakeholders, and areas of collaboration.
- 6.2.2 Issues covered, methods or forums used, their role and contribution.
- 6.2.3 Any action taken or change (s) made by the investee entities as a result of collaborative engagement exercise.

6.2.4 Outcomes of collaborative engagement exercise on the investment decisions.

Reporting should be fair and include instances where the desired outcome has not been achieved or is yet to be achieved.

IGPS A7: IDENTIFYING AND MANAGING CONFLICTS OF INTEREST

Institutional Investors should identify and manage conflicts of interest and put the best interests of their clients first.

Conflicts of interest arise where the interests of Institutional Investors are contrary to the interests of their client(s), or indeed where the interests of different clients of Institutional Investors are different. Conflicts of interest may undermine the ability or willingness of Institutional Investors to act clearly in their clients' interests.

For Example:

- i. Institutional Investor has an apparent client relationship conflict where it provides significant services to the entity in which they invested in.
- ii. Institutional Investor's stewardship staff have a personal relationship with relevant individuals at the entity in which the Institutional Investor has an investment.
- iii. Situations where the interests of different clients diverge – such as, during a takeover where one set of clients is exposed to the target and another set is exposed to the acquirer, etc.

7.1 Guidance

- 7.1.1 Institutional Investors should have appropriate processes to identify, consider and manage conflicts of interest to put the best interests of their clients first.
- 7.1.2 As a part of the comprehensive policy referred in IGPS A1, 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 is placed before the interest of the entity. The policy should also address how matters will be handled when the interests of clients diverge from each other.
- 7.1.3 The situations of conflicts of interest need to be made fully transparent to the relevant client(s) and indeed how they are handled must also be made appropriately transparent.

7.2 Reporting Requirements

While reporting, Institutional Investors should disclose:

- 7.2.1 Details of policy for identifying and managing conflicts of interest and review mechanism thereof.
- 7.2.2 Efficacy of mechanism for identifying and managing instances of actual or potential conflicts related to stewardship.
- 7.2.3 Situations of conflicts of interest and how they have addressed actual or potential conflicts.
- 7.2.4 Manner of escalation of conflicts of interest identified and manner of their disclosure.

Reporting should be fair and include instances where the Institutional Investors have managed or not been able to manage the conflicts of interest effectively.

IGPS A8: INTEGRATING MATERIAL ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS

Institutional Investors should integrate material environmental, social and governance (ESG) factors and Sustainable Development Goals (SDGs) in investment decision making.

8.1 Guidance

- 8.1.1 Institutional Investors should build an understanding of their investee entities' business models and strategy and how ESG factors may influence risks and opportunities affecting investee entities' long-term performance and sustainable value.
- 8.1.2 Institutional Investors should consider ways to analyse, monitor, assess and integrate ESG related risks and opportunities into investment processes across asset classes, aligning with and empowering better informed investment decision making, voting and engagement practices.
- 8.1.3 Institutional Investors should endeavour to evaluate portfolio as well as transaction level environmental and social risk exposure and opportunities using appropriate methodologies and best practice norms.
- 8.1.4 Institutional Investors should ensure that the Service Providers, where their services are taken, receive clear and actionable criteria to support their recommendations on integration of ESG and SDGs parameters.
- 8.1.5 Institutional Investors should encourage integrated reporting, use of standardized metrics and independent verification of ESG data by entities to link ESG and other qualitative factors more clearly with entity's strategy and operations, and ultimately long-term value creation.
- 8.1.6 Institutional Investors should consider performance and commitment of value chain partners of investee entities towards ESG while making any decision.

- 8.1.7 Institutional Investors should engage with their investee entities to ensure sufficient ESG disclosures that allow investors to gain an appropriate understanding of material sustainability related risks.

8.2 Reporting Requirements

While reporting, Institutional Investors should disclose:

- 8.2.1 Instances of promoting their Investee entities' long-term performance over short-term considerations.
- 8.2.2 Material ESG issues they have prioritized for assessing investments, prior to holding, monitoring through holding and exiting.
- 8.2.3 Details of integration of ESG factors while investing for different funds, asset classes and geographies.
- 8.2.4 The processes they have used to integrate material ESG issues while investing and alignment made to different investment time horizons of clients.
- 8.2.5 Mechanism to ensure that the Service Providers have received clear and actionable criteria to support integration of material ESG issues in their recommendations.

IGPS A9: EXERCISING AND PROTECTING VOTING RIGHTS

Institutional Investors should exercise their voting rights after due care, diligence and judgement so as to ensure the best interests of their clients.

Voting rights reflect the essence of shareholder's democracy. A high voting turnout at general meetings ensure that decisions taken at the meeting are sound and representative of corporate democracy. Therefore, voting rights should be exercised with due care, diligence and judgment, and Institutional Investors should seek to exercise all voting rights keeping this thing in mind. Where an Institutional Investor chooses not to vote in specific circumstances, this should be clearly disclosed to their clients.

Voting is not an end in itself, but rather a crucial tool for holding governing body accountable and helping Institutional Investors perform their duty of stewardship to support creation of long-term value for their clients.

In order to understand the criteria that is being adopted by the Institutional Investors for voting, they should create and publish a voting policy. Voting judgments should be based on the voting policy as well as merits of the proposal placed for consideration. Institutional Investors should be ready to justify the reasons to their clients and the affected enterprises when this implies a departure from their usual voting policy.

Institutional Investors should work proactively with other intermediaries to remove voting barriers wherever they may be found in the investment chain, and they should ensure that their votes are reflected in the voting results provided by their investee entities.

9.1 Guidance

- 9.1.1 Institutional Investors should take their voting decisions in the investee entity judiciously after in-depth analysis and in the best interest of their clients.
- 9.1.2 Institutional Investors that delegate their proxy voting responsibilities to a third party should ensure that the third party's processes, policies and capabilities are in alignment to protect their clients' long-term interests.

- 9.1.3 As a part of the comprehensive policy referred in IGPS A1, Institutional Investors should formulate a separate policy on voting and disclosure of voting activity which shall inter-alia include the following:
- i. mode of voting (e.g., e-voting, voting in person, voting through proxy, etc.)
 - ii. internal guidelines for voting including:
 - a. on how to assess the proposals and take voting decision thereon;
 - b. 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 addressing conflict-of-interest issues during voting.
 - iii. disclosure of voting including:
 - a. periodicity of disclosure;
 - b. details of voting for every proposed resolution in Investee entities i.e. for, against or abstain;
 - c. rationale for voting;
 - d. manner of disclosure – e.g. in annual report to investors, quarterly basis, publishing on website etc.
 - iv. 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 Institutional Investors rely upon/use recommendations made by such services.

- 9.1.4 The voting policy, voting decisions (including rationale for decision), use of proxy voting/voting advisory services, etc. should be publicly disclosed.
- 9.1.5 Institutional Investors should ensure that use of a proxy voting advisor is not a substitute for the Institutional Investors own responsibility to ensure that votes are cast in an informed and responsible manner and as per their voting policy.
- 9.1.6 Institutional Investors who avail the services of data analysts and researchers should ensure the quality and accuracy of their products and services.
- 9.1.7 Institutional Investors who avail the services of other asset managers and investment consultants should ensure that assets have been managed in alignment with Institutional Investors' stewardship policy.
- 9.1.8 Institutional Investors should protect their voting rights in investee entities with unequal share structures which may have the effect of diluting their voting rights.
- 9.1.9 Institutional Investors should also engage with policy makers where required to ensure that rights of minority shareholders are protected.

9.2 Reporting Requirements

For listed equity assets

While reporting, Institutional Investors should disclose:

- 9.2.1 Details of policy for exercising voting rights and review thereof, if any.
- 9.2.2 Mechanism for monitoring their shareholdings and voting rights.
- 9.2.3 Proportion of shares that were voted in the last year.
- 9.2.4 The extent to which they use recommendations of proxy advisors and details thereof and previous twelve months engagement, if any, with them.

- 9.2.5 Mechanism to ensure that Service Providers have adequate systems and processes in place to avoid/ mitigate conflicts of interest.
- 9.2.6 The process by which voting decisions were taken including how conflicts of interest were addressed.
- 9.2.7 Rationale for all voting decisions, particularly where:
 - i. there was a vote against the governing body;
 - ii. there were votes against shareholder resolutions;
 - iii. a vote was withheld;
 - iv. the vote was not in line with voting policy.
- 9.2.8 Website link to their voting records.
- 9.2.9 Outcomes of resolutions they have voted on over the last twelve months.

For fixed income assets

While reporting, Institutional Investors should disclose:

- 9.2.10 Their approach to seeking amendments to terms and conditions in contracts.
- 9.2.11 Seeking access to information provided in trust deeds.

IGPS A10: REPORTING STEWARDSHIP ACTIVITIES

Institutional Investors should report periodically to their clients on how they have exercised their stewardship responsibilities so as to be fully accountable.

Effective disclosure and reporting to stakeholders promote transparency, accountability and good governance. It builds trust and confidence among stakeholders, including clients, investors, regulators, and the public at large.

10.1 Guidance

- 10.1.1 Institutional Investors should report to their clients annually on how they have fulfilled their stewardship responsibilities including adherence to the stewardship policy and IGPS. Any deviation should be properly disclosed by the Institutional Investors.
- 10.1.2 Institutional Investors should maintain records of meetings, voting and engagement to support reporting on stewardship for the benefit of their clients. The Institutional Investors should preserve the records for a period of eight years from the date of event.
- 10.1.3 IGPS include reporting expectations under the heading Reporting Requirements. Institutional Investors should determine which reporting expectations are relevant and appropriate to their role in the investment community.
- 10.1.4 Institutional Investors should ensure that they have covered all the relevant points as specified under reporting requirements of IGPS.
- 10.1.5 Wherever required, reporting on specific principles of IGPS, may also be done at regular intervals. For example - voting may be disclosed on quarterly basis while implementation of conflict-of-interest policy may be disclosed on an annual basis. However, the Institutional Investors should prepare a comprehensive report at the end of the year giving a clear picture to their clients on

how they have fulfilled their stewardship responsibilities prescribed under IGPS during the year.

- 10.1.6 Reports should be engaging, succinct and in plain English. Disclosure in the report should be specific and transparent.
- 10.1.7 The report should be a single document structured to give a clear picture of how the Institutional Investors have applied the IGPS. Relevant data, diagrams, tables, examples and case studies should be used appropriately.
- 10.1.8 Report should focus on activities and outcomes and provide enough information to enable the reader to have a good understanding of the application of the IGPS without having to refer the information elsewhere. However, the Report may link to more detailed policies and disclosures, including against other reporting requirements. Any additional information should be clear and accessible.
- 10.1.9 Reports should be fair and balanced. For example, reporting should acknowledge setbacks experienced and lessons learned, as well as successes. Activities to achieve desired outcomes may take more than a year and may not be completed within an entity's reporting period. Where this is the case, this should be indicated and progress reported.
- 10.1.10 The IGPS recognises that Institutional Investors differ by size, type, business model and investment approach, and do not exercise stewardship in an identical way. However, the information provided should give a clear indication of how stewardship activities differ across funds, asset classes and geographies proportionately to their operations.
- 10.1.11 Any instance involving the diversion of 10% or more stake from an investee entity by the Institutional Investor must be communicated along with reasons thereof to the investor at least seven days before exercising voting rights on the relevant motion. Additionally, this information should be included in the annual report.

- 10.1.12 Institutional Investors should also disclose what internal or external assurance they have received in relation to their stewardship responsibilities in order to ensure that their stewardship reporting is fair, balanced and understandable.
- 10.1.13 Internal assurance may be given by a designated committee or internal audit team and external assurance should be by an independent third party.
- 10.1.14 Report should be signed by the authorized person on behalf of the governing body of the Institutional Investor.
- 10.1.15 The report should be publicly disclosed on the website of the Institutional Investor and report may also be sent as a part of annual intimation to its clients within thirty days from the date on which the annual general meeting is held or within thirty days from the finalization of financial statement (audited) of the Institutional Investor, whichever is earlier.

**ICSI GUIDING PRINCIPLES
ON
STEWARDSHIP (IGPS)**

**PART B:
FOR SERVICE PROVIDERS**

IGPS B1: DEFINING MISSION, STRATEGY AND GOVERNANCE CULTURE

The mission, strategy, and governance culture of Service Providers should enable them to promote effective stewardship.

1.1 Guidance

- 1.1.1 Service Providers should formulate a comprehensive policy explaining their mission, an outline of governance culture, stewardship objectives, approaches and processes, values, business model and strategy.
- 1.1.2 In case any of the business activities are outsourced, the policy should provide for the oversight mechanism to ensure that in such cases, stewardship responsibilities are exercised properly and diligently.
- 1.1.3 The policy should further explain how the Service Providers intend to fulfil their stewardship responsibilities described in IGPS.
- 1.1.4 The policy should be reviewed and updated periodically and the updated policy should be publicly disclosed on the Service Providers' website.
- 1.1.5 The policy should provide for guidance and training of the personnel who are involved in implementation of the stewardship policy and the IGPS.

1.2 Reporting Requirements

While reporting, Service Providers should disclose:

- 1.2.1 The mission, governance culture, values, business model, stewardship objectives, approaches and processes and strategy that guides the entity's decisions, activities, and goals.
- 1.2.2 Overview of desired stewardship responsibilities and achieved results in relation to IGPS.
- 1.2.3 Details of stewardship policy, approving authority and website link where the policy is published.

- 1.2.4 Overview of the outsourced activities and the extent to which stewardship responsibilities have been outsourced and relied upon.
- 1.2.5 Details of review of the stewardship policy and reasons thereof along with history of previous reviews, if any.
- 1.2.6 Details of guidance and training provided during the reporting period to the personnel involved in implementation of the stewardship policy and the IGPS.

IGPS B2: INTERNAL GOVERNANCE

Service Provider's internal governance and resources are the foundation to the effective stewardship.

2.1 Guidance

- 2.1.1 Service Provider's internal governance should be driven by their primary fiduciary duty to preserve and enhance long term value which is aligned with the interest of their clients.
- 2.1.2 Service Providers should have necessary capacity and resources to effectively manage and discharge their stewardship obligations, including:
 - i. their chosen organisational and workforce structures;
 - ii. their seniority, experience, qualifications, training and diversity; and
 - iii. their investment in systems, processes, research and analysis.
- 2.1.3 Service Providers should ensure that their employees or partners, comply with necessary certification and qualification requirements, if any, as may be specified by the respective regulatory bodies from time to time.
- 2.1.4 Service Providers should maintain all records in relation to their stewardship obligation either in physical or electronic form and it should be preserved for a minimum period of eight years.
- 2.1.5 Service Providers should ensure that their governance structure and processes enable oversight and accountability for effective stewardship within their entity.
- 2.1.6 Service Providers should also ensure that their governance structure is consistent with the good corporate governance practices and subject to periodic independent review.
- 2.1.7 Service Providers' governing body should conduct regular evaluations, including periodic third-party led evaluations,

to ensure that they meet expectations of accountability and effectiveness.

- 2.1.1.8 Service Providers should be guided by the governance culture that reflects their values and supports their fiduciary duty towards their clients.
- 2.1.1.9 Service Providers should have in place a code of ethics or conduct to mandate adherence to these values and duties.
- 2.1.1.10 Service Providers' governing body is ultimately accountable for ensuring that the stewardship responsibilities of Service Providers are executed properly. Hence, they should set a tone at the top and ensure that a framework is in place for the effective execution of their stewardship responsibilities.
- 2.1.1.11 Service Providers should consider their place in the chain of responsibility when it comes to stewardship and be ready to collaborate with others in the investment chain in order to protect and enhance long term value of their clients.
- 2.1.1.12 Service Providers should design remuneration structures and reward programs for their workforce in such a way that it incentivizes them to integrate stewardship while making recommendations to their clients.
- 2.1.1.13 Service Providers should not pay any bonus, salary or other form of compensation to any individual employed by them that is determined or based on any specific merchant banking or investment banking or brokerage services transaction.
- 2.1.1.14 Compensation of all individuals employed by Service Providers should be reviewed, documented and approved annually by governing body/ committee appointed by governing body of such Service Providers, which should not have representation from its merchant banking or investment banking or brokerage services divisions, if any.
- 2.1.1.15 The employees of the Service Providers should not be subject to the supervision or control of any employee of the merchant banking or investment banking or brokerage services divisions of that Service Provider.

- 2.1.16 Service Providers should design mechanism for effective and better utilisation of the service of any outside independent personnel or agency, if any, in order to aid the functions of the Service Provider.
- 2.1.17 Service Providers who engage outside independent personnel or agencies to fulfill their obligations to clients should obtain periodic affirmation from the outside independent personnel or agencies on-
 - i. the principles outlined in the IGPS to the extent required for the assigned work; and
 - ii. continued adherence to the principles of the IGPS.
- 2.1.18 Service Providers should frame appropriate procedures and internal systems for monitoring the trading of securities by their directors and employees and others involved in the decision making process, in accordance with applicable securities laws.
- 2.1.19 Service Providers should appoint a compliance officer who shall be responsible for monitoring overall internal governance of the entity including the adherence to the IGPS and compliance of applicable laws.

2.2 Reporting Requirements

While reporting, Service Providers should disclose:

- 2.2.1 Governance structure in place and its effectiveness in supporting their stewardship responsibilities.
- 2.2.2 Governance mechanism in relation to organisational and workforce structure, their seniority, experience, qualifications, training and diversity.
- 2.2.3 The details of internal governance mechanism which is used to manage and perform stewardship obligations while rendering services.
- 2.2.4 Periodic third-party led evaluations including positive and negative remarks.
- 2.2.5 How the entity's governance culture supports their

stewardship responsibilities, details of code of ethics or conduct and review thereof, if any.

- 2.2.6 Remuneration structures and reward programs for their workforce and review thereof, if any.
- 2.2.7 Mechanism for effective and better utilisation of the services outsourced.
- 2.2.8 Details of procedures and internal systems for monitoring the trading of securities by its directors and employees and others involved in the decision making process.
- 2.2.9 Details about appointment or change of compliance officer.

IGPS B3: IDENTIFYING AND RESPONDING TO MARKET-WIDE AND SYSTEMIC RISKS

Service Providers should identify and respond to market-wide and systemic risks in order to safeguard the investment and interest of their clients.

Systemic risk refers to the risk associated with the complete failure of an individual business, a particular sector or industry or the overall economy. A systemic risk describes the likelihood that a single event could spark collapse in an industry or the wider economy.

On the other hand, “market risk” refers to the threat inherent in the market as a whole. Recessions, difficult economic times, wars, increasing or stagnating interest rates, volatility in currency or commodity prices, among other broad-based problems, can all lead to market risk.

3.1 Guidance

3.1.1 In order to manage systemic risks, the Service Providers should:

- i. proactively supervise the investee entities of their clients to ensure that they have strong corporate governance structures, robust risk management policies and effective transparency and disclosure policies.
- ii. ensure that their employees have adequate knowledge and are well equipped to analyze the financial statements of the investee entities of their clients in order to help them in predicting the bankruptcy signal and failure probability of the investee entities well in advance.

3.1.2 In order to manage market risks, the Service Providers should ensure that the portfolios of their clients include a variety of asset classes, such as shares, debentures, bills, bonds, real estate, etc. each of which will react differently in the event of a major market change.

For example - an increase in interest rates may make newly

issued bonds more valuable, while causing some entity's stocks to decrease in price as investors perceive them to be cutting back on spending. So, making sure that the portfolio incorporates ample income generating securities will mitigate the loss of value in some equities.

3.2 Reporting Requirements

While reporting, Service Providers should disclose:

- 3.2.1 Mechanism for identifying and responding to the market-wide and systemic risks.
- 3.2.2 Effectiveness of the mechanism for identifying and responding to market-wide and systemic risks.

IGPS B4: IDENTIFYING AND MANAGING CONFLICTS OF INTEREST

Service Providers should identify and manage conflicts of interest and put the best interests of their clients first.

Conflicts of interest arise where the interests of Service Providers are contrary to the interests of their client(s), or indeed where the interests of different clients of Service Providers are different. Conflicts of interest may undermine the ability or willingness of Service Providers to act clearly in their clients' interests.

For example : (i) The Service Provider has a significant business relationship with a company for which it also provides advisory services to Institutional Investors holding equity in that company. For instance, if a proxy advisory firm also provides consulting services to the company on corporate governance matters, it might face a conflict when advising Institutional Investors on how to vote on issues related to that company.

(ii) Service Provider's staff have close relationships with key individuals at a company they are evaluating or providing advice on. An analyst at a rating agency who has a close friendship with an executive at the company being rated might have their objectivity compromised.

4.1 Guidance

- 4.1.1 Service Providers should have appropriate processes to identify, consider and manage conflicts of interest to put the best interests of their clients first.
- 4.1.2 As a part of the aforesaid comprehensive policy as referred in IGPS B1, Service Providers should formulate a detailed policy for identifying and managing actual or potential conflicts of interest. The policy shall be intended to ensure that the interest of the client is placed before the interest of the entity. The policy should also address how matters will be handled when the interests of clients diverge from each other.
- 4.1.3 The situations of conflicts of interest need to be made fully transparent to the relevant client(s) and indeed how they are handled must also be made appropriately transparent.

- 4.1.4 Service Providers should have in place an appropriate mechanism to prevent the misuse of any information which they have gathered while rendering services to clients.
- 4.1.5 Service Providers should have in place appropriate mechanism to ensure independence of the activities entrusted by the investors from its other business activities, if any.
- 4.1.6 Personal trading activities of the individuals employed or engaged by the Service Providers shall be monitored and recorded.
- 4.1.7 Independent research analysts, individuals employed as research analysts by Service Providers or their associates should not deal or trade directly or indirectly in securities that they review in a manner contrary to their given recommendation.
- 4.1.8 Independent research analysts, individuals employed as research analysts by Service Providers or their associate shall not purchase or receive securities of the issuer before the issuer's initial public offering, if the issuer is principally engaged in the same types of business as entities that the research analyst follows or recommends.

4.2 Reporting Requirements

While reporting, Service Providers should disclose:

- 4.2.1 Policy for identifying and managing conflicts of interest and details of review thereof, if any;
- 4.2.2 Mechanism for identifying and managing instances of actual or potential conflicts related to stewardship;
- 4.2.3 Mechanisms to ensure unbiased and independent delivery of service along with other business activities, if any;
- 4.2.4 Details of escalation of conflict of interest issues, if any, identified and manner of their disclosure;
- 4.2.5 Instances of resolving actual or potential conflicts of interest.

- 4.2.6 All material information about Service Provider including its business activity, disciplinary history, the terms and conditions on which it offers services, details of associates and such other information as is necessary to take an investment decision.
- 4.2.7 Details of any financial interest by Service Provider or its associate or its relative in the subject entity along with the nature of such financial interest or actual/beneficial ownership.
- 4.2.8 Details of public offering of securities managed or co-managed for the subject entity by the Service Provider or its associates in the past twelve months.
- 4.2.9 Details of compensation received for investment banking or merchant banking or brokerage services from the subject entity by the Service Provider or its associates in the past twelve months.
- 4.2.10 Details of compensation received for products or services other than investment banking or merchant banking or brokerage services from the subject entity by the Service Provider or its associates in the past twelve month.
- 4.2.11 Details of compensation or other benefits received by the Service Provider or its associates from the subject entity or third party in connection with the service engagement.
- 4.2.12 Details of compensation received from the subject entity by the Service Provider or its associates in the past twelve months.
- 4.2.13 Whether the subject entity is or was a client during twelve months preceding the date of engagement of service?
- 4.2.14 Whether the Service Provider has been engaged in market making activity for the subject entity?

Reporting should be fair and include instances where they have not been able to manage conflicts of interest effectively.

IGPS B5: INTEGRATING CLIENTS' STEWARDSHIP

Service Providers should integrate clients' stewardship, investment and material environmental, social and governance issues in the services they provide to their clients.

5.1 Guidance

- 5.1.1 Service Providers should build an understanding of their clients' investee entities business models and strategy and how ESG factors may influence risks and opportunities affecting clients' investee entities' long-term performance and sustainable value.
- 5.1.2 Service Providers should consider ways to analyse, monitor, assess and integrate ESG related risks and opportunities into services they provide aligning with and empowering better-informed investment decision-making, voting and engagement practices.
- 5.1.3 Service Providers should encourage integrated reporting, use of standardized metrics and independent verification of ESG data by entities to link ESG and other qualitative factors more clearly with entity strategy and operations, and ultimately long-term value creation.

5.2 Reporting Requirements

While reporting, Service Providers should disclose:

- 5.2.1 How their services best support clients' stewardship as appropriate to the nature of Service Providers' business?
- 5.2.2 How they have sought clients' views and feedback, with frequency thereof and the rationale for their chosen method of communication?
- 5.2.3 The effectiveness of their chosen methods for communicating with clients and understanding their needs, and how they evaluated their effectiveness.
- 5.2.4 Details of integration of stewardship and investment for different funds, asset classes and geographies.

- 5.2.5 The processes they have used to integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients.

IGPS B6: REPORTING STEWARDSHIP ACTIVITIES

Service Providers should report periodically to their clients on how they have exercised their stewardship responsibilities so as to be fully accountable.

Effective disclosure and reporting promote transparency, accountability and good governance by providing stakeholders with relevant information about the actions, decisions, and performance of Service Providers. It builds trust and confidence among stakeholders, including clients, investors, regulators, and the public.

6.1 Guidance

- 6.1.1 Service Providers should report to their clients annually on how they have fulfilled their stewardship responsibilities including adherence to the stewardship policy and IGPS. Any deviation should be properly disclosed by the Service Providers.
- 6.1.2 Service Providers should maintain records of meetings, engagement and document summaries of stewardship activities to support reporting on stewardship for the benefit of their clients. The Service Providers should preserve the records for a period of eight years from the date of event.
- 6.1.3 Service Providers shall disclose the methodologies and processes followed in the development of their research and corresponding recommendations to their clients.
- 6.1.4 IGPS include reporting expectations under the heading Reporting Requirements. Service Providers should determine which reporting expectations are relevant and appropriate to their role in the investment community.
- 6.1.5 While reporting, the Service Providers should ensure that they have covered all the relevant points as specified under reporting requirements of IGPS.
- 6.1.6 Reports should be engaging, succinct and in plain English. Disclosures in the report should be specific and transparent.

- 6.1.7 The report should be fair and balanced document structured to give a clear picture of how the Service Providers have applied the IGPS. Relevant data, diagrams, tables, examples and case studies should be used appropriately.
- 6.1.8 Report should focus on activities and outcomes and provide enough information to enable the reader to have a good understanding of the application of the IGPS without having to refer to information elsewhere. However, the Report may link to more detailed policies and disclosures, including against other reporting requirements. Any additional information should be clear and accessible.
- 6.1.9 Service Providers should also disclose what internal or external assurance they have received in relation to their stewardship responsibilities in order to ensure that their stewardship reporting is fair, balanced and understandable.
- 6.1.10 Internal assurance may be given by a designated committee or internal audit team and external assurance should be by an independent third party.
- 6.1.11 Report should be signed by the authorized person on behalf of the governing body of the Service Provider.
- 6.1.12 The report should be publicly disclosed on the website of the Service Provider and report may also be sent as a part of annual intimation to its clients.

REFERENCES

1. The Securities and Exchange Board of India (Credit Rating Agencies) Regulations, 1999
2. The Securities and Exchange Board of India (Research Analyst) Regulations, 2014
3. Common Stewardship Code of Pension Fund Regulatory and Development Authority (2018)
4. Stewardship Code issued by Securities and Exchange Board of India (2019)
5. Revised guidelines on Stewardship Code for Insurers in India by Insurance Regulatory and Development Authority of India (2020)
6. The UK Stewardship Code, 2020

Annexure-I

Reporting Format
on
ICSI Guiding Principles on Stewardship (IGPS) for
Institutional Investors

(Name of the Institutional Investor) _____

For the year ended/period _____

1. GENERAL INFORMATION

- 1.1 Name of the Institutional Investor
- 1.2 Entity identification number of the Institutional Investor
- 1.3 Type of entity
- 1.4 Date of incorporation
- 1.5 Registered office address
- 1.6 Corporate office address, if any
- 1.7 E-mail
- 1.8 Telephone
- 1.9 Website
- 1.10 Name of the stock exchange(s) where shares are listed, if any
- 1.11 Name and contact details (telephone, email address) of the designated stewardship officer, if any.

2. MESSAGE FROM CEO

- 2.1 Major highlights during the Year
- 2.2 Major changes in asset portfolio and reasons
- 2.3 Approach to stewardship
- 2.4 Significant voting details in brief
- 2.5 Major issues and best practices identified
- 2.6 Engagement highlights

- 2.7 Improvement in stewardship policies
- 2.8 ESG integration into investment decisions and ownership policies and practices
- 2.9 Key development during the year (in terms of policy/ voting/ investment/ strengthening stewardship team, etc.)

3. PURPOSE AND VALUES

- 3.1 Mission & Vision, Values
- 3.2 Guiding principles for investments
- 3.3 Investment beliefs & strategy

4. GOVERNANCE STRUCTURE

- 4.1 Details of composition of governing body
- 4.2 Details of committees constituted by governing body
- 4.3 Details of members of governing body with expertise on aspects especially in investment management/ESG matters
- 4.4 Details of diversity in governing body in terms of skills/gender etc.

5. PRINCIPLE WISE REPORTING

<i>IGPS Part A</i>	<i>Compliance Status (Fully/ Partially/ Not Complied)</i>	<i>*Reason for partial/non-Compliance & expected date of achieving full compliance & Observations/ Remarks</i>	<i>Evidence of adherence to IGPS Part A (Give cross reference of Page No. of Report on IGPS)</i>
1. Defining mission, investment philosophies, strategy and governance culture			
2. Internal governance			

3. Monitoring the investee entities			
4. Identifying and responding to market-wide and systemic risks			
5. Continuous engagement with the investee entities			
6. Taking collaborative approach in exercising stewardship responsibilities			
7. Identifying and managing conflicts of interest			
8. Integrating material environmental, social and governance (ESG) factors			
9. Exercising and protecting voting rights			
10. Reporting stewardship activities			
*Reporting entity should provide reasons and expected date of achieving complete compliance with the IGPS			

5.1 IGPS A1: DEFINING MISSION, INVESTMENT PHILOSOPHIES, STRATEGY AND GOVERNANCE CULTURE

- 5.1.1 How the mission, governance culture, values, business model, stewardship objectives, approaches and processes and strategy guide the entity's decisions, activities, and goals?
- 5.1.2 Overview of desired stewardship responsibilities and achieved results in relation to IGPS.
- 5.1.3 Details of stewardship policy, approving authority and website link where policy is published.

- 5.1.4 The extent to which stewardship responsibilities have been outsourced and relied upon.
- 5.1.5 Details of review of the stewardship policy and reasons thereof alongwith history of previous reviews, if any.
- 5.1.6 Details of guidance and training provided during the reporting period to the personnel involved in implementation of the stewardship policy and the IGPS.

<i>Sl No.</i>	<i>Name</i>	<i>Qualifi- cation</i>	<i>Experi- ence</i>	<i>Profile</i>	<i>Details about training for im- plementation of stewardship policy/IGPS</i>

5.2 IGPS A2: INTERNAL GOVERNANCE

- 5.2.1 Details of governance structure in place, how effective the Institutional Investor's chosen governance structures and processes have been in supporting its stewardship responsibilities?
- 5.2.2 How the Institutional Investor's internal governance mechanism ensures effective discharge of stewardship obligations in relation to organisational and workforce structure, and their seniority, experience, qualifications, training and diversity?
- 5.2.3 How the internal governance mechanism which is used to manage and perform stewardship obligations while availing services from Service Providers including investment in systems, processes, research and analysis?
- 5.2.4 Details of periodic third-party led evaluations including positive and negative remarks.
- 5.2.5 How the entity's governance culture support Institutional

Investor's fiduciary duty and, details of code of ethics or conduct and its reviews?

5.2.6 Details of procedures and internal systems for monitoring the trading of securities by its directors and employees and others involved in the decision making process.

5.2.7 Details about appointment or change of compliance officer.

5.3 IGPS A3: MONITORING THE INVESTEE ENTITIES

5.3.1 Details of levels of monitoring of different investee entities, areas of monitoring, monitoring mechanism and reasons for classifying into different levels, if any.

5.3.2 Details of compliance of applicable securities laws while seeking information from the investee entities for the purpose of monitoring.

5.3.3 Details of changes of investment in each asset class and new investment in new asset class.

5.3.4 Manner of assessing the financial impact of ESG factors in each asset class.

5.3.5 Details of periodic evaluations of the quality and performance of the Service Provider in case of outsourcing of monitoring activities.

5.3.6 Details of periodical review and measures taken for effectiveness of monitoring activities.

5.4 IGPS A4: IDENTIFYING AND RESPONDING TO MARKET-WIDE AND SYSTEMIC RISKS

5.4.1 Mechanism for identifying and responding to the market-wide and systemic risks.

5.4.2 Effectiveness of the mechanism for identifying and responding to market-wide and systemic risks.

5.5 IGPS A5: CONTINUOUS ENGAGEMENT WITH THE INVESTEE ENTITIES

5.5.1 How Institutional Investor has selected and prioritized engagement (for example, key issues and/or size of holding)?

5.5.2 Methods of engagement used and the extent to which Institutional Investor has been used.

5.5.3 How engagement has differed for funds, assets or geographies?

Summary of Engagement		
Funds	Asset Class	Jurisdiction

5.5.4 Details of action or change(s) made by the investee entities as a result of engagement process.

5.5.5 Details of enhancement of engagement, if any, including the issue(s) and the reasons for the same.

5.5.6 Areas of concern that remained unresolved and mechanism adopted for resolving the same.

5.5.7 Outcomes of escalation on investment decisions and details of communication of the same to the clients.

5.5.8 Results and engagement outcomes -

Engagement Details with Entities

Categories of Engagement	Brief about Engagement	Number of Engagements	Percentage of engagements	Outcome
Thematic	Environmental			
	Social			
	Governance			
Proxy Related				
Investment related				
Proactive Engagements				

Reactive Engagements (feedback based)				
Others				

Details of other engagements

Sl No.	Engagement with	Number of Engagements	Brief details of Engagement	Outcome of Engagement
1	Regulators /policy makers			
2	Other institutional investors			
3	Proxy Advisory Firms			
4	Others			

Modes of Engagement

Sl No.	Mode	No. of engagements
1	One to one meeting(s) with Entities/CEOs	
2	Conferences	
3	Entity Field Visits	
4	Others	

- 5.5.9 Engagement outcome on ESG (under each “Environmental”, “Social” and “Governance” issues).

Engagement in relation to Environmental Issues						
Name of the Investee entity	Category of engagement	Type/ Mode of engagement	Asset Class	ESG Issues Addressed	Context and Actions	Engagement Outcome

Engagement in relation to Social Issues						
Name of the Investee entity	Category of engagement	Type/ Mode of engagement	Asset Class	ESG Issues Addressed	Context and Actions	Engagement Outcome
Engagement in relation to Governance Issues						
Name of the Investee entity	Category of engagement	Type/ Mode of engagement	Asset Class	ESG Issues Addressed	Context and Actions	Engagement Outcome

5.6 IGPS A6: TAKING COLLABORATIVE APPROACH IN EXERCISING STEWARDSHIP RESPONSIBILITIES

- 5.6.1 Why Institutional Investor decided to collaborate with other investors/ stakeholders and areas of collaboration?
- 5.6.2 Issues covered, methods or forums used, Institutional Investors' role and contribution.
- 5.6.3 Details of action taken or change (s) made by the investee entities as a result of collaborative engagement exercise.
- 5.6.4 Outcomes of collaborative engagement exercise on the investment decisions.

5.7 IGPS A7: IDENTIFYING AND MANAGING CONFLICTS OF INTEREST

- 5.7.1 Whether Institutional Investor formulated a detailed policy for identifying and managing conflicts of interest and review mechanism thereof? Details of review of the policy, if any.
- 5.7.2 How Institutional Investor has identified and managed any instances of actual or potential conflicts related to stewardship?
- 5.7.3 Manner of escalation of conflicts of interest identified and manner of their disclosure.

5.8 IGPS A8: INTEGRATING MATERIAL ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) FACTORS

- 5.8.1 Instances of promoting investee entities' long-term performance over short-term considerations.
- 5.8.2 Manner of integration of ESG into different policies.
- 5.8.3 Material ESG issues that Institutional Investor has prioritized for assessing investments, prior to holding, monitoring through holding and exiting.
- 5.8.4 How integration of ESG factors while investing differed for funds, asset classes and geographies?

Summary of integration of stewardship and investment		
<i>Funds</i>	<i>Asset Class</i>	<i>Jurisdiction</i>

- 5.8.5 The processes used by Institutional Investor to integrate material ESG issues while investing and alignment made to different investment time horizons of clients.
- 5.8.6 How Institutional Investor has ensured that Service Providers have received clear and actionable criteria to support integration of material ESG issues in their recommendations?
- 5.8.7 Issues and Best Practices identified under each "Environmental", "Social" and "Governance" issues in investee entities

<i>Sl. No</i>	<i>Name of the investee entity</i>	<i>Issues and Best Practices identified under E of ESG</i>	<i>Issues and Best Practices identified under S of ESG</i>	<i>Issues and Best Practices identified under G of ESG</i>
1				
2				

5.9 IGPS A9: EXERCISING AND PROTECTING VOTING RIGHTS

5.9.1 Summary of votes cast during review period

Time Period (Quarterly/ monthly)	Total Number of Resolutions	Details of votes caste		
		For	Against	Withheld
1 st Quarter				
2 nd Quarter				
3 rd Quarter				
4 th Quarter				

5.9.2 Reasons for against Votes (for each resolution)

Sl. No.	Type of Resolution voted against	Reason for against & withheld votes	Percentage of votes	
			against	withheld

5.9.3 Whether Institutional Investors formulated a detailed policy for exercising voting rights? Details of review of the policy, if any.

5.9.4 How Institutional Investor monitored its shareholdings and voting rights thereon?

5.9.5 The extent to which Institutional Investor used default recommendations of proxy advisors and details of previous twelve months engagement, if any.

5.9.6 How Institutional Investor has ensured that its Service Providers have adequate systems and processes in place to avoid/ mitigate conflicts of interest?

5.9.7 The process by which voting decisions were taken including how conflicts of interest were addressed.

5.9.8 Website Link to voting records.

5.9.9 For investment in fixed income assets, the Institutional Investor should report:

- (i) instances of seeking amendments to terms and conditions in contracts of fixed income assets;
- (ii) instances of seeking access to information provided in trust deeds in relation to fixed income assets.

5.10 IGPS A10: REPORTING STEWARDSHIP ACTIVITIES

Details of internal and third-party assurance, if any, on stewardship activities.

Sl. No.	Name of the assurer	Details of engagement (Internal or external)	Remarks/ qualification(s), if any, in assurance report	Details of actions taken

For and on behalf of the governing body of (Name of Institutional Investor)

SIGNATURE

NAME

DIN / PAN /

Any other Identifier

ADDRESS

.....

Date:

Place:

**Reporting Format
on
ICSI Guiding Principles on Stewardship (IGPS) for
Service Providers**

(Name of the Service Provider)

For the year ended/period

1. GENERAL INFORMATION

- 1.1 Name of the Service Provider
- 1.2 Entity identification number of the Service Provider
- 1.3 Type of entity
- 1.4 Date of incorporation
- 1.5 Registered office address
- 1.6 Corporate office address, if any
- 1.7 E-mail
- 1.8 Telephone
- 1.9 Website
- 1.10 Name of the stock exchange(s) where shares are listed, if any
- 1.11 Name and contact details (telephone, email address) of designated stewardship officer, if any.

2. MESSAGE FROM CEO

- 2.1 Major highlights during the Year
- 2.2 Approach to stewardship
- 2.3 Major issues and best practices identified
- 2.4 Engagement highlights
- 2.5 Improvement in stewardship policies

- 2.6 ESG integration into provision of services
- 2.7 Key developments during the year (in terms of policy/ strengthening stewardship team, etc.)

3. PURPOSE AND VALUES

- 3.1 Mission & Vision, Values
- 3.2 Guiding principles
- 3.3 Service beliefs & strategy

4. GOVERNANCE STRUCTURE

- 4.1 Details of composition of governing body
- 4.2 Details of committees constituted by governing body
- 4.3 Details of members of governing body with expertise in investment analysis/ ESG matters
- 4.4 Details of diversity in governing body in terms of skills/ gender etc.

5. PRINCIPLE WISE REPORTING

<i>IGPS Part B</i>	<i>Compliance Status (Fully/ Partially/ Not Complied)</i>	<i>*Reason for partial/non- Compliance & expected date of achieving full compliance & Observations/ Remarks</i>	<i>Evidence of adherence to IGPS Part B (Give cross reference of Page No. of Report on IGPS)</i>
1. Defining mission, strategy and governance culture			
2. Internal governance			
3. Identifying and responding to market-wide and systemic risks			

4. Identifying and managing conflicts of interest			
5. Integrating clients' stewardship			
6. Reporting stewardship activities			
*Reporting entity should provide reasons and expected date of achieving complete compliance with IGPS			

5.1 IGPS B1: DEFINING MISSION, STRATEGY AND GOVERNANCE CULTURE

- 5.1.1 How the mission, governance culture, values, business model, stewardship objectives, approaches and processes and strategy that guides the entity's decisions, activities, and goals?
- 5.1.2 Details of stewardship policy, approving authority and website link where the policy is published.
- 5.1.3 Overview of desired stewardship responsibilities and achieved results in relation to IGPS.
- 5.1.4 Overview of the outsourced activities, the extent to which stewardship responsibilities have been outsourced and relied upon.
- 5.1.5 Details of review of the stewardship policy and reasons thereof alongwith history of previous reviews, if any.
- 5.1.6 Details of guidance and training provided during the reporting period to the personnel involved in implementation of the stewardship policy and the IGPS.

Sl. No.	Name	Qualification	Experience	Profile	Details about training for implementation of stewardship policy/IGPS

5.2 IGPS B2: INTERNAL GOVERNANCE

- 5.2.1 Details of governance structure in place, how effective the Service Provider's chosen governance structures and processes have been in supporting their stewardship responsibilities?
- 5.2.2 How the internal governance mechanism of the Service Provider ensures effective discharge of stewardship obligations in relation to organisational and workforce structure, and their seniority, experience, qualifications, training and diversity?
- 5.2.3 Periodic third-party led evaluations including positive and negative remarks.
- 5.2.4 How the entity's governance culture supports the Service Provider's stewardship responsibilities, details of code of ethics or conduct and review thereof, if any?
- 5.2.5 Details of remuneration structures and reward programs for their workforce and review thereof, if any.
- 5.2.6 Mechanism for effective and better utilisation of the services outsourced.
- 5.2.7 Details of procedures and internal systems for monitoring the trading of securities by its directors and employees and others involved in the decision making process.
- 5.2.8 Details about appointment or change of compliance officer.

5.3 IGPS B3: IDENTIFYING AND RESPONDING TO MARKET-WIDE AND SYSTEMIC RISKS

- 5.3.1 Mechanism for identifying and responding to the market-wide and systemic risks.
- 5.3.2 Effectiveness of the mechanism for identifying and responding to market-wide and systemic risks.

5.4 IGPS B4: IDENTIFYING AND MANAGING CONFLICTS OF INTEREST

- 5.4.1 Whether Service Provider has formulated a detailed policy

for identifying and managing conflicts of interest? Details of review of the said policy, if any.

- 5.4.2 How Service Provider has identified and managed instances of actual or potential conflicts related to stewardship, if any?
- 5.4.3 How Service Provider ensured unbiased and independent deliverance of services along with other business activities, if any?
- 5.4.4 Manner of escalation of conflict of interest issues identified and manner of disclosure of conflict of interest issues.
- 5.4.5 Instances of resolving actual or potential conflicts of interest.
- 5.4.6 Details of material information including Service Provider's business activity, disciplinary history, the terms and conditions on which it offers services, details of associates and such other information as is necessary to take an investment decision.
- 5.4.7 Details of any financial interest by Service Provider or its associate or its relative in the subject entity along with the nature of such financial interest or actual/beneficial ownership.
- 5.4.8 Details of public offering of securities managed or co-managed for the subject entity by the Service Provider or its associates in the past twelve months.
- 5.4.9 Details of compensation received for investment banking or merchant banking or brokerage services from the subject entity by the Service Provider or its associates in the past twelve months.
- 5.4.10 Details of compensation received for products or services other than investment banking or merchant banking or brokerage services from the subject entity by the Service Provider or its associates in the past twelve month.
- 5.4.11 Details of compensation or other benefits received by the Service Provider or its associates from the subject entity or third party in connection with the service engagement.

- 5.4.12 Details of compensation received from the subject entity by the Service Provider or its associates in the past twelve months.
- 5.4.13 Whether the subject entity is or was a client during twelve months preceding the date of engagement of service?
- 5.4.14 Whether the Service Provider has been engaged in market making activity for the subject entity?

5.5 IGPS B5: INTEGRATING CLIENTS' STEWARDSHIP

- 5.5.1 How their services best support clients' stewardship as appropriate to the nature of Service Providers' business?
- 5.5.2 How the Service Provider has sought clients' views and feedback, frequency thereof and the rationale for their chosen method of communication?
- 5.5.3 The effectiveness of the Service Provider's chosen methods for communicating with clients and how they evaluated their effectiveness.
- 5.5.4 How integration of stewardship and investment has differed for funds, asset classes and geographies?
- 5.5.5 The processes that the Service Provider has used to integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients.

5.6 IGPS B6: REPORTING STEWARDSHIP ACTIVITIES

Details of internal and third-party assurance, if any, on stewardship activities, etc.

<i>Sl. No.</i>	<i>Name of the assurer</i>	<i>Details of engagement (Internal or external)</i>	<i>Remarks/ qualification(s), if any, in assurance report</i>	<i>Details of actions taken</i>

Annexure-II

For and on behalf of the governing body of (Name of
Service Provider)

SIGNATURE

NAME

DIN / PAN /

Any other
Identifier

ADDRESS

.....

Date:

Place:

[illegible]

Motto

सत्यं वद। धर्मं चर।

इष्टवरे तेह truth. बोवेह by तेह law.

Vision

"To be a global leader in promoting good corporate governance"

Mission

"To develop high calibre professionals facilitating good corporate governance"



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Company Secretaries of India**

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ICSI House, 22, Institutional Area, Lodi Road, New Delhi 110 003

tel 011-4534 1000 fax +91-11-2462 6727

email info@icsi.edu website www.icsi.edu