

Proxy Advisory Voting Guidelines and Shareholder Stewardship in India: An Analysis of the IiAS Voting Guidelines 2024-25

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Abstract - Proxy advisors now play a large part in how institutional investors in India exercise their votes, yet the reasoning behind their recommendations has received little academic attention. This paper reads the Voting Guidelines 2024-25 issued by Institutional Investor Advisory Services India Limited (IiAS), the eleventh edition of a framework that covers 28 types of shareholder resolution. We use document analysis and thematic coding to see what the guidelines take from the law, what they add, and when they lead to an AGAINST recommendation. The guidelines ask whether the spirit of the regulation has been met, and this standard is deliberately stricter than the Companies Act, 2013 and the SEBI (LODR) Regulations, 2015. Five themes run through them: independence that holds in practice; executive pay that is capped, tied to performance and recoverable; stock option schemes that can be defended; defined limits and fixed validity for related party and inter-corporate approvals; and a preference for periodic shareholder review over open-ended authority. We argue that the guidelines now work as an informal governance code, and we consider what follows for boards, investors and regulators.

Key Words: Proxy advisory, Corporate governance, Stewardship, Executive remuneration, Related party transactions, Qualitative analysis.

1. INTRODUCTION

Institutional investors in India are expected to vote on shareholder resolutions as part of their stewardship responsibilities. A listed company puts many such resolutions to its shareholders in a financial year, on accounts, auditors, directors, pay, capital raising and dealings with related parties. Few investors have the time to study each one, and many turn to proxy advisors for research and a recommendation. Institutional Investor Advisory Services India Limited (IiAS) is one of these advisors. It published its first Voting Guidelines in 2013 and has revised them each year since; the 2024-25 edition, revised on 31 July 2024, is the eleventh [1].

The guidelines are built on the Companies Act, 2013 (hereafter the Act) [2] and the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, referred to here as SEBI (LODR) [3]. They also draw on governance practice in India and elsewhere and on feedback from market participants. The stated philosophy has stayed the same since 2013, which is equitable treatment of all shareholders [1]. Because investors use the guidelines when they vote, companies have reason to read them when they draft their own resolutions. Even so, they have not been studied systematically.

This paper has four aims. The first is to describe how IiAS arrives at its recommendations. The second is to identify the principles behind them. The third is to see where those

principles go beyond the regulatory baseline, including the changes made in 2024-25. The fourth is to consider what this means for companies, investors and regulators.

2. RESEARCH DESIGN

The study is a qualitative document analysis of the published IiAS Voting Guidelines 2024-25 [1], read alongside the statutory and regulatory texts to which the guidelines refer [2], [3]. The guidelines deal with 28 typical resolutions. For each one they state the governance focus, the type of meeting, the relevant provision of the Act and SEBI (LODR), whether the resolution is ordinary or special, and the basis of the recommendation.

We read each category closely and coded it under three headings: the regulatory baseline, the additional tests IiAS applies, and the circumstances in which it recommends voting AGAINST. The codes were then grouped into recurring themes, which are reported in Section 4. The reading is interpretive. It concerns the policy as IiAS states it and the reasons given for it, and it does not follow the policy into particular companies or meetings.

3. STRUCTURE AND PROCESS OF THE GUIDELINES

IiAS describes its process as transparent and committee-based. It works from public sources, among them annual reports, analyst calls, company websites, stock exchange filings and the shareholder notice, and it applies the published guidelines to them [1]. Two things follow. A company is judged mainly on what it chooses to disclose, so the notice and explanatory statement carry real weight. The approach also aims at consistency, so that similar resolutions are treated alike across companies and across years.

The guidelines have a second use. Investors can borrow from them when framing their own stewardship policies, and companies can use them to draft resolutions that answer likely questions in advance. Each chapter sets out the applicable regulations, the disclosures IiAS will look at, the main risks and the reasoning behind its view. From 2024-25, the voting reports also state how IiAS's stance relates to the regulatory procedures for proxy advisors.

4. KEY THEMES FROM THE GUIDELINES

4.1 Independence in substance: board composition

IiAS says that it judges independence by the spirit of the regulation, and so it may recommend AGAINST an appointment that is perfectly legal. The Act allows an independent director two consecutive terms. IiAS counts tenure from the date of first appointment, and from 2024-25 it will not support a (re)appointment if the director's combined tenure with the company or its group would pass a decade at any point in the proposed term. Its reasoning is that a long association wears away independence. Other links that count against a candidate include board interlocks, representation of significant

shareholders or lenders, and any business tie between the director's firm and the company, however small. A former executive is expected to complete a cooling-off period, which is longer if a former supervisor still sits on the board.

Commitment is treated as part of independence. Attendance is taken as a sign of engagement, though promoters who are closely involved in the business may be excused a poor record. IiAS follows the regulatory limits on board seats, but it counts full-time work of any kind, such as consulting or running a professional firm, as the equivalent of a whole-time directorship. Nominees are expected to have relevant experience, with an allowance for first-generation promoters and founders. IiAS also generally opposes alternate directors, non-rotational board seats that create permanence, and boards so large that consensus becomes hard or that mainly make room for family members. In public sector enterprises it holds government nominees responsible when the board falls short of the norms.

4.2 Executive remuneration: capped, performance-linked and recoverable

IiAS notes that executive pay has outrun revenue and profit growth in much of corporate India, and in 2024-25 it changed its framework in response [1]. Pay, in its view, should tie executives to the company's goals and results. Resolutions should now state an absolute cap that includes the expected fair value of stock options. Pay for managing directors and chief executives should include malus and claw-back clauses. At least half of total pay should be variable, with defined deliverables and performance benchmarks, and the expected quantum of stock options should be disclosed. A resolution that fails on these points may attract an AGAINST recommendation.

The Nomination and Remuneration Committee (NRC) is asked to explain a proposal by reference to company growth, the pay of the median employee, trends in workforce and employee costs, dividends, performance metrics, recovery provisions, sustainability targets and pay received from other group companies. The statute and SEBI (LODR) set limits and approval requirements [2], [3], and IiAS adds a comparison with peers, size and performance. It generally objects to company-borne personal expenses, to pay from unlisted group entities or other arrangements that shareholders cannot examine, and to promoters or executive directors sitting on the NRC, which it sees as a conflict of interest.

4.3 Accountable stock options, capital and dividends

Stock option schemes are treated more strictly than before. Deeply discounted options and restricted stock units should vest only on specific, pre-defined performance targets. General references to revenue or profit measures, or to a mix of corporate and individual goals, will not do. Where deeply discounted options vest merely with time, IiAS regards them as assured pay and not as an incentive. Companies must say how many options they expect to grant each year, or over how many years the scheme will run out, and how the scheme is spread across the organisation. IiAS will not back a scheme that mainly rewards senior management or one individual [1].

On capital, IiAS accepts that companies need funds to grow and generally supports equity issues, bonus shares and dividends, but it looks at dilution, who the allottees are and how the money will be used. Its position on warrants for promoters has softened. They are now acceptable where promoters subscribe alongside other investors to make up for dilution, or where they fund a defined capital expenditure plan that needs staggered funding. On dividends it prefers a stated payout policy and a plain account of what will be done with surplus cash, and

it warns against payouts that would strain a weak balance sheet. Underlying all of this is the view that no class of shareholder, the promoter in particular, should be favoured.

4.4 Related party and inter-corporate transactions: defined limits and validity

A transaction with a related party carries a conflict of interest by its nature. IiAS therefore wants related party transactions (RPTs) to come with an absolute limit, stated on a gross and not a net basis, and with the period for which approval is sought. Approval should be obtained before the transaction takes place [1]. It generally recommends AGAINST proposals that are open-ended in amount or duration, that cannot be shown to be at arm's length, or that unduly benefit the controlling shareholder. Shareholders of the day should be able to review what has been approved. For that reason long contracts, such as power purchase or concession agreements, are accepted only when the company shows a clear business need and describes the arrangement in some detail.

Similar reasoning applies to royalty payments to related parties, where IiAS asks whether the payment is justified, independently evaluated and linked to performance. It applies to loans, guarantees and investments under Sections 185 and 186 of the Act as well [2]. Companies are expected to name the recipients and explain their connection to the company, and dealings with companies that share directors are seen as carrying a particular risk of misuse. Appointments of related persons to offices of profit are judged on qualifications, experience and how the pay compares with similar roles.

4.5 Financial reporting, auditors and periodic review

On financial statements IiAS relies on the auditors' report. It recommends AGAINST where the opinion is qualified, where internal financial controls are in doubt, or where matters of emphasis could harm the company. In judging auditors the main concern is objectivity. Long tenure of the firm, links with promoters, thin experience relative to the size of the client, undisclosed fees and the make-up of the audit committee all count [1].

One change in 2024-25 cuts across several chapters, namely the rejection of rolling limits and approvals in perpetuity. IiAS will no longer support rolling limits under Sections 180(1)(c), 185 and 186 of the Act, and it will generally oppose transactions for which approval is sought in perpetuity, because shareholders should be able to review board decisions from time to time [1]. The same idea of periodic accountability runs through the guidelines on directors, pay, RPTs and borrowing.

5. DISCUSSION

The first point that stands out is where the scrutiny falls. The most detailed tests apply to director independence, remuneration, stock options and related party dealings, which are the areas where managers and promoters have the most room for discretion. Routine matters such as accounts and dividends are handled with more deference. This fits the view that proxy advice is mainly a safeguard against conflicts of interest between controlling and minority shareholders.

The second point is that the guidelines go beyond the law, and say so. Tenure is counted from first appointment. Independence is judged on substance as well as on the statutory criteria. Promoter pay is weighed against peers and employee costs and not only against statutory limits, and approvals that the law allows to stay open-ended are discouraged. A company that complies fully with the Act and SEBI (LODR) can therefore still receive an AGAINST recommendation. A third point is that many of the 2024-25 changes are really disclosure standards,

such as caps, validity periods, performance targets and gross limits. Companies can meet these directly in the way they draft resolutions.

The study has limitations. It rests on one provider's own statement of its policy. It does not examine how that policy is applied in individual cases, or how investors respond to it. Later qualitative work could set the guidelines beside those of other proxy advisors and beside investor stewardship codes, or look closely at examples of contested resolutions.

6. CONCLUSIONS

The IiAS Voting Guidelines 2024-25 amount to a detailed and fairly demanding code for governance in listed Indian companies. They ask for independence that exists in substance, pay that is capped and linked to performance, related party approvals with clear limits and a fixed duration, and regular shareholder review of what the board has been allowed to do. Boards that disclose clearly, set absolute caps and limit the period of approvals are less likely to draw an adverse recommendation. Investors can use guidelines of this kind as an input to their own stewardship decisions but should not treat them as a replacement for those decisions. Regulators may also wish to consider which of these practices deserve to be written into rules.

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