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विकास प्राधिकरण
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CIRCULAR

PENSION FUND REGULATORY AND DEVELOPMENT AUTHORITY

No. PFRDA/ 2017/17/PF/1

Date: 20.04.2017

To,

ALL Pension Funds, Custodian and NPS Trust

SUB: VOTING POLICY ON ASSETS HELD BY NATIONAL PENSION SYSTEM TRUST (NPS TRUST)

This document sets forth the guidelines for NPS Trust and the Pension Funds while exercising the voting rights for the assets held by NPS Trust on behalf of the NPS subscribers. All Pension Funds (PFs) are under obligation to acquire, manage or dispose of scheme assets on behalf of NPS Trust, hence, pension funds are made responsible to cast vote for the stock (Equity shares held by NPS Trust usually carry voting rights), ensuring that voting supports the interests of the subscribers over the long term.

1. FRAMEWORK, OBJECTIVE AND OUTLINES

It may be ensured that, an investee Company is being managed in the best interests of its shareholders. This in turn would help generate better returns for its unit holders under the various NPS Schemes. The said objectives may not direct a particular voting outcome, but instead help identify factors which should be considered in determining how the vote should be cast.

A. Framework

- (i). For ensuring uniformity in proxy voting, the NPS Trust/Pension Funds (PFs) (as authorised by NPS Trust) to vote proxies on the trustees' behalf /on behalf of NPS Trust, a coordinating Pension Fund (PF) will obtain the individual PFs' opinion on the resolution /agenda and co-ordinate with the PFs towards arriving at consensus on the voting decision to be exercised uniformly by the PFs on behalf of NPS Trust/Trustees' behalf. It will finally intimate the decision to the custodian who will finally execute the voting decision.
- (ii). In case of tie in terms of number of vote/ not arriving at consensus, decision of PF with the largest number of shares towards the resolution/agenda would be final.

- (iii). Custodian shall be responsible for execution of voting. As a part of process, the coordinating pension fund will inform the decision of NPS Trust/all pension funds (as authorised by NPS Trust) to Custodian and further, as per the information submitted by coordinating pension fund, Custodian will cast the vote as applicable.

B. Objectives

- (i). To favour such proposals that tend to maximize a Company's shareholders' value and which in turn benefit the NPS subscribers; and
- (ii). To ensure that the decision taken to cast a vote is not influenced by conflict of interest.
- (iii). There is uniformity in casting of the vote across all Pension Funds so that they do not end up voting at cross purpose to each other.

C. Outlines

- (i). Specific decision on a particular resolution i.e to support, oppose or abstain from voting, shall be taken on a case-to-case basis placing focus on the potential impact of the vote on shareholder value and interests of the unit holders of the NPS Schemes at large. The NPS Trust or a Pension Fund authorised by it, exercises the right to vote (routed through Co-ordinating PF and Custodian) with respect to any resolution affecting the interest of NPS subscribers. Pension Fund(s) may also, at their discretion choose to abstain from participating in any resolution and hold a neutral stance, should the concerning issue be of no major relevance for the shareholder value and/or unit holder interest.
- (ii). At Pension Fund level, the decision of casting proxy votes shall be through a Proxy Voting Committee comprising of Senior Officials headed by the Chief Investment Officer (CIO) including any committee or sub-committee already functional and looking after investment decisions. The Committee shall have the final authority to decide upon exercise of votes basing on the voting policy being proposed now.
- (iii). Pension Fund authorised by NPS Trust to vote proxies on the trustees' behalf have a duty of loyalty to exercise their proxy voting authority solely in the interests of the NPS subscribers. They have a duty to exercise their proxy voting authority with the prudence, skill, and diligence that a prudent person would exercise in managing the property of others. Failing to vote the scheme's shares, voting without consideration of the effects of the vote, or voting arbitrarily with or against management violates these duties. Those who are responsible for voting also have a duty to take reasonable steps to ensure that they receive and act on the proxies for all of schemes shares in a timely manner.
- (iv). The duty and right to vote emanates from shareholding / holding of securities. It is the responsibility of Pension Fund to consider relevant factors that may affect the value of the securities, should the proxy vote be exercised. The proxy voting rights must be exercised in the best interest of the participants in the investing plans.

2. APPLICATION OF GUIDELINES

- (i). NPS Trust or the Pension Funds who are authorised by it will vote its proxies in accordance with these proxy voting guidelines. In deciding how to apply the guidelines, Pension Funds will consider the circumstances of each vote as well as the general principles contained in these guidelines. The overarching principle in interpreting and applying these guidelines is to follow the course of action that will best serve the long-term interests of NPS subscribers. Voting decisions may deviate from these guidelines if doing so would best serve subscribers' interests in the long term for reasons to be recorded in writing. If questions arise about the application or interpretation of these guidelines for any issue, they should be resolved in consultation with NPS Trust, who in turn is expected to keep the Authority posted of the issue.
- (ii). The voting Pension Funds should seek out information from a variety of sources to determine what is in the long-term economic best interests of subscribers. Pension Fund, who fail to vote without taking reasonable steps to ensure that the proxies for which the Pension Fund is responsible are received, or cast a vote without considering its impact, or vote arbitrarily with management, would violate these guidelines. These guidelines will also be employed by NPS Trust to monitor the Pension Funds proxy voting procedures and decisions.

3. GENERAL VOTING GUIDELINES

A decision to invest is generally an endorsement of the management of an issuer and its strategy for the company. On routine matters, which do not materially impact the interest of the NPS subscribers, the Pension Funds may abstain from voting, if unavoidable. When it believes that it is in the best interest of the NPS subscribers to vote for/ against a resolution, the Pension Funds may do so. Some of the key considerations for exercise of a vote will depend on the following factors:

- Does it protect the unit holder's rights?
- Will it have an impact on the Company's profitability?
- Will it impact the company's governance?
- What will be the impact on the shareholder's value?
- Will the resolution provide any undue benefits to promoters/ their affiliates/ subsidiaries/ group companies?

4. INDICATIVE GUIDELINES FOR VOTING PROXIES

Sl no	Item description	General Recommendations
1	Accept Financial Statements and Statutory Reports	Generally vote for approval of financial statements and statutory reports, unless; <ul style="list-style-type: none"> ➤ There are concerns about the accounts presented or audit procedures used; or ➤ There has been an accounting fraud or material misstatement during the year. The overall quality of disclosure will be considered, and the weakest examples, such as where the meeting documents are not released in time for investors to review these ahead of the meeting, are likely to attract a negative vote recommendation.
	Amendments to the Articles of Association	Generally Vote on case-by-case on amendments to the articles of association.

		<p>Requests to amend a company's articles of association are usually motivated by changes in the company's legal and regulatory environment, although evolution of general business practice can also prompt amendments.</p> <p>When reviewing proposals to revise the existing articles or to adopt a new set of articles, Pension Funds shall analyse the changes proposed according to what is in the best interest of shareholders in general.</p> <p>Changes to the company's Articles should not be 'bundled' into a single resolution when they cover non-routine matters</p>
	Approve Final Dividend	<p>Generally vote for proposals to approve the final dividend, unless;</p> <ul style="list-style-type: none"> ➤ The payout is excessive given the company's financial position. <p>The annual report includes a review of the company's performance during the year and should contain a justification for the dividend level. Unless there are major concerns about the payout ratio, it is usually recommended for approval of this item.</p>
	<p>Appointment of External Auditors</p> <p>The external auditors play an important role in verifying the integrity of an Issuer's financial reporting to ensure that information ultimately provided to shareholders is free from material misstatements and presented fairly in all material respects. As such, we place great importance on the quality and independence of the external auditors.</p>	<p>We will generally support the appointment of the auditors recommended by an audit committee of the Board comprised solely of independent financially literate directors.</p> <p>Hence, generally vote for proposals to ratify the appointment of external auditors, unless;</p> <ul style="list-style-type: none"> ➤ There are serious concerns about the procedures used by the auditor; or ➤ The auditors are being changed without explanation; <p>It is best practice that the resolutions to appoint the external auditors and to fix their remuneration as two separate items.</p> <p>If the company proposes a new auditor, or an auditor resigns and does not seek re-election, the company should offer an explanation to shareholders. If no explanation is provided, it is recommended to vote against the election of the new auditor.</p>
	Authorise Board to Fix Remuneration of Auditors	<p>Generally vote for proposals authorizing the board to fix the fees payable to the external auditors, unless;</p> <ul style="list-style-type: none"> ➤ Fees for non-audit services routinely exceed standard audit-related fees. <p>Companies are encouraged to make a full public disclosure of the amount and nature of any payments for non-audit services, to enable investors to appropriately assess these when considering the ratio of audit to non-audit services. Where payments to the auditor for non-audit services appear under the category of "Other Fees" in the annual report, we should expect that the company will disclose the nature of these services.</p>
	Investments in Group	<p>Generally vote for proposals while ensuring that</p>

	Companies	<ul style="list-style-type: none"> ➤ investments in such companies are in line with the Scheme specified Investment Objective/ Asset allocation and the Investment Policy in place; ➤ such transactions are for pure commercial consideration; after having evaluated the same on merits; ➤ such transactions are at arm's length with no consideration of any existing / consequent investments by an Investor/group of investors. ➤ An exception to the above would be where there is reason to believe that there is diversion/siphoning of funds.
	Director Elections	<p>Generally vote for the election or re-election of directors, unless;</p> <ul style="list-style-type: none"> ➤ Adequate disclosure has not been provided in a timely manner; ➤ The board fails to meet minimum corporate governance standards – basing on any external reports. ➤ There are specific concerns about the individual, such as their ability to commit sufficient time to the role.
	<p>Board independence Directors are either an executive director or a non-executive director. Non-executive directors may be considered either independent or non-independent; an executive director is always considered to be non-independent. The Chairman may be either a non-executive or an executive, although the designation of an executive chairman could be interpreted negatively by investors as evidence of one individual combining leading the board with bearing some executive responsibility for the company's operations. The independence of the non-executive directors shall be assessed on an ongoing basis, while the independence of the chairman shall be on appointment.</p>	<p>Support an independent board of competent individuals. The following are some of the indicative actions in this regard:</p> <ul style="list-style-type: none"> ➤ Vote for increasing the independence of committees that are responsible for nominating members of the board, supervising outside auditors, and setting the terms of compensation for executive management ➤ Vote for creating a nominating committee. ➤ Vote for creating a compensation committee. ➤ Vote for creating an audit committee. <p>and</p> <ul style="list-style-type: none"> ➤ Vote against requiring a minimum stock ownership for Directors, unless required by law. ➤ Vote against giving the board the authority to set its size freely without shareholder approval. ➤ Vote against mandatory retirement. ➤ Vote against fixed tenure policies. ➤ Vote against proposals that directors can only be removed for legal causes.
	Remuneration/compensation policy Management and director	Investors expect that a company will work within its remuneration policy, and only seek approval to go outside the policy in genuinely exceptional circumstances. Seeking approval

	<p>compensation is a critical aspect of an Issuer's governance. The compensation policies of a company and amounts payable to the senior executives and directors should be disclosed in the proxy circular so that the shareholders can assess whether the interests of senior executives and directors are aligned with their own.</p> <p>The disclosure of the shareholdings of senior executives and directors is also important information for shareholders as well as the disclosure of the use of compensation consultants by the Issuer, the Board or a Board committee, including the fees paid to such consultants.</p>	<p>for awards outside the policy is to be viewed skeptically. Hence, remuneration should be directly linked to the long term performance of the company</p> <p>Generally vote for the resolution if it meets the long term interests of the shareholders as provided above and generally vote against stock option and stock incentive plans that result in excessive dilution including excessive Golden parachute plans (golden parachutes are severance compensation arrangements, to be paid to an executive whose employment is terminated in the event of a merger or acquisition that results in a change in control over the company).</p> <p>Director Compensation Remuneration and fees for non-executive directors (the annual retainer and per diems for attending each Board and committee meeting) should be at a level that makes serving as a director financially worthwhile for qualified individuals but not so high that directors become beholden to the Issuer and compromise their independence. Pension Funds/NPS Trust will support director fee levels that reflect the expertise, responsibilities and time commitment expected.</p>				
	<p>Shareholder Proposals</p> <p>Company's should allow shareholders to participate in decisions concerning fundamental corporate changes and adopt governance structures and procedures that give shareholders the ability to hold the Board and indirectly management to account. We encourage companies to treat shareholders equally and to facilitate shareholders' right to vote, free of impediments.</p>	<p>Generally vote for the adoption of confidential voting and the independent tabulation of proxy ballots.</p> <ul style="list-style-type: none"> ➤ Generally vote for the facilitation of shareholder voting, including the provision of electronic voting ➤ Generally vote for asking the Board to adopt confidential voting and independent tabulation of the proxy ballots. ➤ Generally vote against elimination or restriction of shareholders' right to call special meetings ➤ Generally vote against eliminating or limiting the shareholders' right to act by written consent. ➤ Generally vote against limitation on the right of shareholders to remove directors to cases where there is legal cause ➤ Generally vote against the issuance of preferred stock with superior voting rights 				
	<p>Anti-Takeover Provisions and Merger and corporate restructuring - Mergers and Acquisitions</p> <p>Proposed mergers, acquisitions</p>	<p>Generally vote mergers and acquisitions on a case-by-case basis, taking into account of the factors of valuation, market reaction, strategic rationale, conflict of interest and governance.</p> <table border="1" data-bbox="639 1883 1406 1921"> <thead> <tr> <th data-bbox="639 1883 810 1921">Factor</th> <th data-bbox="810 1883 1406 1921">Approach</th> </tr> </thead> <tbody> <tr> <td colspan="2" data-bbox="639 1921 1406 1946" style="height: 10px;"> </td> </tr> </tbody> </table>	Factor	Approach		
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<p>and corporate restructurings have important impacts on shareholder value. Such transactions as well as any takeover protection measures should be structured to maximize shareholder value without compromising the rights of shareholders.</p>	<table border="1"> <tr> <td data-bbox="651 286 821 510">Valuation</td> <td data-bbox="821 286 1417 510">Is the value to be received by the target shareholders, or paid by the acquirer, reasonable? While the fairness opinion, where one is provided, may provide an initial starting point for assessing the appropriateness of the valuation, one shall place particular emphasis on the offer premium, market reaction and strategic rationale in the analysis.</td> </tr> <tr> <td data-bbox="651 510 821 607">Market reaction</td> <td data-bbox="821 510 1417 607">How has the market responded to the proposed deal? A negative market reaction will be viewed with caution.</td> </tr> <tr> <td data-bbox="651 607 821 797">Strategic rationale</td> <td data-bbox="821 607 1417 797">Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions.</td> </tr> <tr> <td data-bbox="651 797 821 958">Conflicts of interest</td> <td data-bbox="821 797 1417 958">Are insiders benefiting from the transaction disproportionately and inappropriately as compared to outside shareholders? One shall consider whether any special interests may have influenced these directors to support or recommend the merger.</td> </tr> <tr> <td data-bbox="651 958 821 1182">Governance</td> <td data-bbox="821 958 1417 1182">Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues, such as valuation, outweigh any deterioration in governance.</td> </tr> </table> <p>➤ Generally vote against proposals that have the effect of entrenching existing management</p>	Valuation	Is the value to be received by the target shareholders, or paid by the acquirer, reasonable? While the fairness opinion, where one is provided, may provide an initial starting point for assessing the appropriateness of the valuation, one shall place particular emphasis on the offer premium, market reaction and strategic rationale in the analysis .	Market reaction	How has the market responded to the proposed deal? A negative market reaction will be viewed with caution.	Strategic rationale	Does the deal make sense strategically? From where is the value derived? Cost and revenue synergies should not be overly aggressive or optimistic, but reasonably achievable. Management should also have a favorable track record of successful integration of historical acquisitions .	Conflicts of interest	Are insiders benefiting from the transaction disproportionately and inappropriately as compared to outside shareholders? One shall consider whether any special interests may have influenced these directors to support or recommend the merger.	Governance	Will the combined company have a better or worse governance profile than the current governance profiles of the respective parties to the transaction? If the governance profile is to change for the worse, the burden is on the company to prove that other issues, such as valuation, outweigh any deterioration in governance .
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<p>ESG Issue Proposals :</p>	<p>Vote on all environmental, social and governance proposals on a case-by-case basis, taking into consideration whether implementation of the proposal is likely to enhance or protect shareholder value, and whether</p> <ul style="list-style-type: none"> ➤ The issues presented in the proposal are more appropriately or effectively dealt with through legislation or government regulation; ➤ The company has already responded in an appropriate and sufficient manner to the issue(s) raised in the proposal; ➤ The proposal's request is unduly burdensome, in terms of scope, timeframe or cost, or overly prescriptive, and how it compares with any industry standard practices for addressing the issue(s) raised by the proposal; ➤ Generally vote for proposals requesting reports on sustainability, environmental impact or plans, human rights policies, and global labor practices, provided such proposals do not call for specific actions that might limit management's freedom of action. 										

	<p>Changes to Capital Structure Companies should have an efficient capital structure that will minimize long-term cost of capital. All changes to the capital structure of a company should be fair and done with a view of supporting growth, increasing shareholder value or for other required reasons.</p>	<p>Generally vote for the need for change in capital structure if there is ;</p> <ul style="list-style-type: none"> ➤ Reasonable need for change in capital structure and which is demonstrated in the written literature by the company; ➤ There is material impact on companies business by the proposed modification.
	<p>Authorise Issue of Equity with and without Pre-emptive Rights</p>	<p>Generally vote for a resolution to authorise the issuance of equity if it has demonstrated that the amount requested is necessary for sound business reasons.</p>
	<p>Authorise Market Purchase of Ordinary Shares</p>	<p>Generally vote for the resolution to authorise the market purchase of ordinary shares, unless;</p> <ul style="list-style-type: none"> ➤ The authority requested exceeds the levels permitted under the Listing Rules; or ➤ The company seeks an authority covering a period longer than 12 months.
	<p>Conflict of Interest and Related-Party Transactions</p>	<p>In evaluating resolutions that seek shareholder approval on related-party transactions, vote on case-by-case basis, considering factors including but not limited to the following:</p> <ul style="list-style-type: none"> ➤ The parties on either side of the transaction; ➤ The nature of the asset to be transferred/service to be provided; ➤ The pricing of the transaction (and any associated professional valuation); ➤ The views of independent directors, where provided; ➤ The views of an independent financial adviser, where appointed; ➤ Whether any entities party to the transaction, including advisers, are conflicted; and ➤ The stated rationale for the transaction, including discussions of timing.

5. REPORTING REQUIREMENTS

- (i). All Pension Funds shall on an annual basis obtain an Auditors certification on the voting reports disclosed. Such Auditors certification shall be submitted to NPS TRUST. Any adverse comments shall be reported to PFRDA by NPS Trust.
- (ii). A quarterly report containing a summary of the voting decisions exercised along with the rationale, as the case may be, shall be submitted to the Board of Directors of the Pension Fund and NPS Trust. The Board of Directors of Pension Fund and NPS Trust shall review and ensure that the Pension Fund has voted on important decisions that may affect the interest of investors and the rationale recorded for vote decision is prudent and adequate.

- (iii). NPS Trust shall provide a summary report on the voting rights exercised, to the Authority after being approved by the Board of trustees on quarterly basis.
- (iv). NPS Trust and the Pension Funds shall disclose the general policies and procedures for exercising the voting rights in respect of shares held by NPS Trust on their website.
- (v). NPS Trust to report to Authority regarding specific issues of non-compliance of guidelines by pension fund/ adverse observations or Comments separately .

6. RETENTION OF RECORDS

All relevant records i.e. proxy form, proxy solicitation materials, Approval notes etc. are to be retained for a period of at least 5 years by pension funds.

7. POWER TO ISSUE CLARIFICATIONS

In case of any ambiguity or on any issue which requires a clarification, the same shall be referred to PFRDA and the decision of the Authority shall be final.

8. FORMATS FOR REPORTING ON THE VOTING RIGHTS EXERCISED AND IN TERMS OF THE REPORTING REQUIREMENTS

A. Format for quarterly reporting on Proxy voting undertaken by the Pension Fund (PF) to NPS Trust

Details of Votes cast during the quarter ended , of the Financial year							
Meeting Date	Company Name	Type of meetings (AGM/EGM)	Proposal by Management or Shareholder	Proposal's description	Investee company's Management Recommendation	Vote (For/ Against/ Abstain)	Reason supporting the vote decision

B. Format for Annual reporting on Summary of Proxy voting undertaken by the Pension Fund (PF) and NPS Trust

Summary of proxy votes cast by Pension fund across all the investee companies					
Financial Year	Quarter	Total number of resolutions	Break-up of Vote decision		
			For	Against	Abstained


 Sumeet Kaur Kapoor
 (Chief General Manager)
