Unveiling Influence: Mandatory Disclosure of Voting Rationale

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Why the reason behind a vote matters

Institutional investors decide board seats, executive pay and capital raising at firms they do not control. What they disclose about those decisions is one word: for, against, or abstain.

- **The same vote can mean opposite things.** A vote in favour may be an endorsement, indifference, or an unwillingness to pay the cost of reading the proposal. Direction alone cannot separate them
- **Abstention is the cheapest way to hold a stake and not monitor it**: recorded, never explained, and costless to the fund
- **Firms cannot respond to opposition they do not understand.** A dissent record with no reasons attached gives a board no instruction on what to fix, and unit-holders pay fees for stewardship they cannot verify
- **Regulators are already writing the rule.** Stewardship codes in the United Kingdom and the European Union ask signatories to explain their most significant votes; US Form N-PX requires the direction of every vote and no explanation at all
- Whether requiring an explanation changes how funds vote, or only generates paperwork, is untested

India has required the **reason for every vote** since 2014, which is where we can find out

Research Question

Does requiring funds to publicly explain every vote change behaviour?

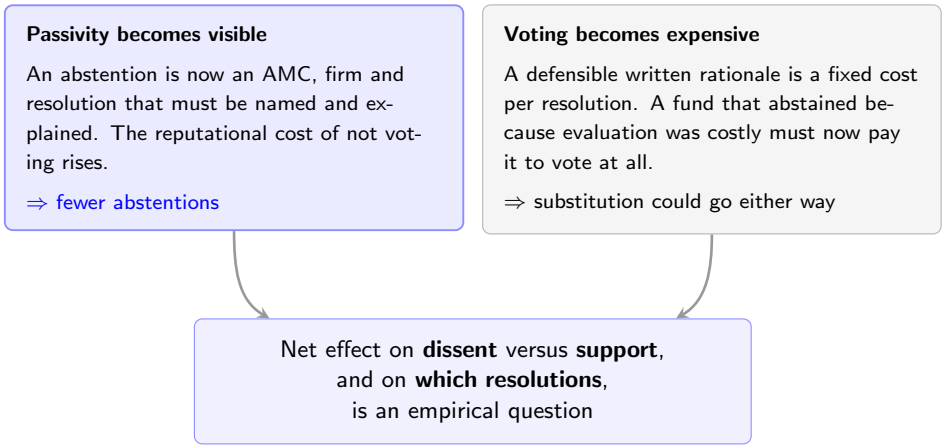
Research Question

Does requiring funds to publicly explain every vote change behaviour?

- What funds **write** in the rationale itself (H1)
- How funds **vote**: on the ballot, against the proxy advisor's benchmark, and in the portfolio they hold (H2)
- How investee firms **govern themselves** (H3)

Why the answer is not obvious

The mandate moves the cost of voting in two directions at once.



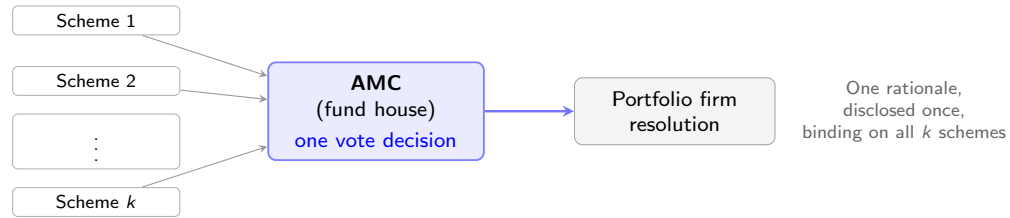
Institutional Background

Shareholding pattern of Indian listed firms

- **Promoters** hold a majority of NSE-listed market capitalisation: 50.1% as of March 2025, private Indian promoters alone 32.5%
  - The founding family or controlling group, with the legal power to appoint a majority of directors
  - Concentrated control raises transparency, related-party and minority-protection concerns
- **Domestic mutual funds** own about 10% of NSE-listed equity market capitalisation
  - 44 SEBI-registered AMCs managing roughly *Rs.* 65.7 trillion (about US$770 billion), about 45% in equity-oriented schemes
- **Why SEBI acted** on how these funds vote
  - The 2014 circular states its purpose as improving transparency and encouraging AMCs to "diligently exercise their voting rights in best interest of the unitholders"
  - It arrives as one piece of SEBI's Long Term Policy for Mutual Funds, whose stated aims include **increasing transparency and widening retail participation**
- **A lot of governance rules are already in place**
  - Section 149 of the Companies Act of 2013 and SEBI's Listing Obligations and Disclosure Requirements impose a minimum independence ratio, audit committee composition, and related-party approval thresholds

Voting happens at the fund house, not the scheme

Unlike the United States, where each fund votes its own shares, in India one **AMC** decision binds every scheme it operates.



Panel unit: **AMC** $\times$ **firm** $\times$ **resolution type** $\times$ **fiscal year**

What the 2014 mandate changes

India has required mutual funds to disclose vote *direction* since 2010.[1] The 2014 circular adds one column to the same filing:

	2010 regime	**2014 regime**
Vote direction disclosed	Yes	Yes
Reason disclosed	No	Yes, for every vote
Covers votes in favour	n/a	Yes
Covers abstentions	Recorded only	Must be explained
Cost of a vote to the fund	Direction only	Direction + a written defence

[1] SEBI Circular SEBI/IMD/CIR No. 18/198647/2010 (March 2010) and SEBI Circular CIR/IMD/DF/05/2014 (March 2014). The mandate was later extended to insurers and pension funds.

What the 2014 filing requires

- **Scope**: a rationale for every vote on every resolution, including abstentions and votes in favour
- **Format**: a standardised table on the AMC's own website, one row per resolution, the rationale itself a free-text field
- **Timing**: within ten working days of quarter-end
- **Certification**: reviewed by the AMC board and by the mutual fund's trustees, a legally separate body charged with safeguarding unit-holders' interests, and certified by an independent auditor
- **Voting season**: clusters between July and September, within six months of the 31 March fiscal year-end

A free-text field, **certified three times over**, is a real fixed cost per resolution

Data

Data Provider: IiAS (proxy advisor)

- **IiAS** (Institutional Investor Advisory Services), founded 2010, is India's first and dominant independent proxy advisor
  - The firm whose recommendations institutional investors most commonly consult
  - Two smaller boutiques follow: Stakeholders Empowerment Services (SES) and InGovern Research Services
- Our data come from **Adrian**, the data and analytics arm of IiAS
  - Consolidates AMC voting disclosures into a standardised format
  - Carries the **disclosed rationale text** and the **contemporaneous IiAS recommendation** for each AMC-firm-resolution observation
  - Reports disaggregated voting outcomes by shareholder type: promoters, institutions, retail
- A mandatory regime avoids the selection problem of voluntary disclosure: every AMC, every vote, every portfolio firm

Other Data Sources

Source	Content
Prowess (CMIE)	Financial statements, ownership, board of directors
Prime Database	Director expertise, related-party transactions, scheme-level AUM
Morningstar India	Scheme-level star rating, expense ratio, portfolio turnover
Own construction	Eight text-based disclosure-quality inputs, from the rationale corpus

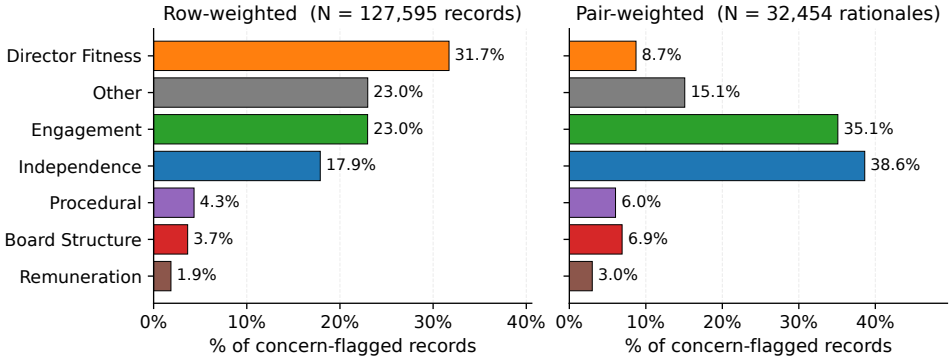
- All firm financial and governance controls are **lagged one fiscal year**, so they reflect information observable at the time of the vote
- AMC controls are **AUM-weighted** across the AMC's equity schemes: AUM weights from Prime Database, the variable being averaged from Morningstar India
  - Morningstar covers equity schemes only, so specifications with AMC controls have a smaller sample (33,072 against 73,379)

Sample construction Resolution mix

What funds actually say

What funds raise concerns about

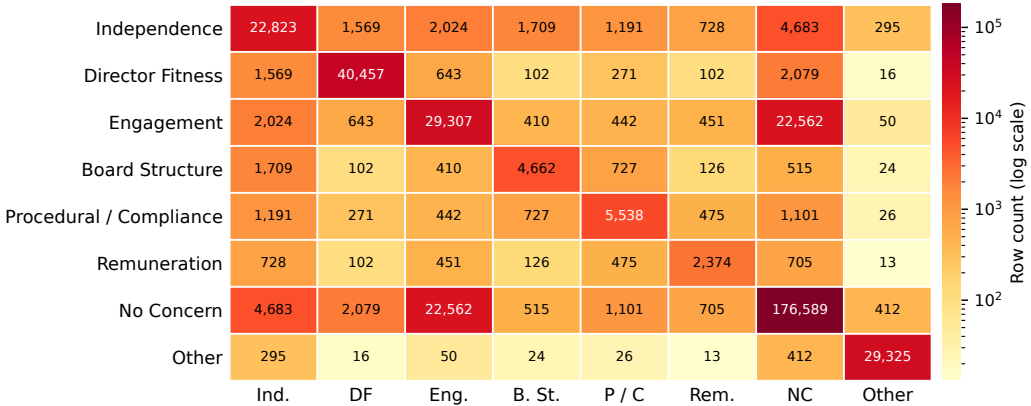
Direction tells us *that* a fund dissented. We read the rationale text itself, on Director Appointments (274,391 records, FY2015 to FY2026), into eight themes. Both panels below are drawn on the 127,595 records that raise a concern at all.



- *Director Fitness* is **31.7%** of records but **8.7%** of rationales: a few texts pasted across thousands of votes
- *Independence* and *Engagement* run the other way, so the texts behind them are written one at a time

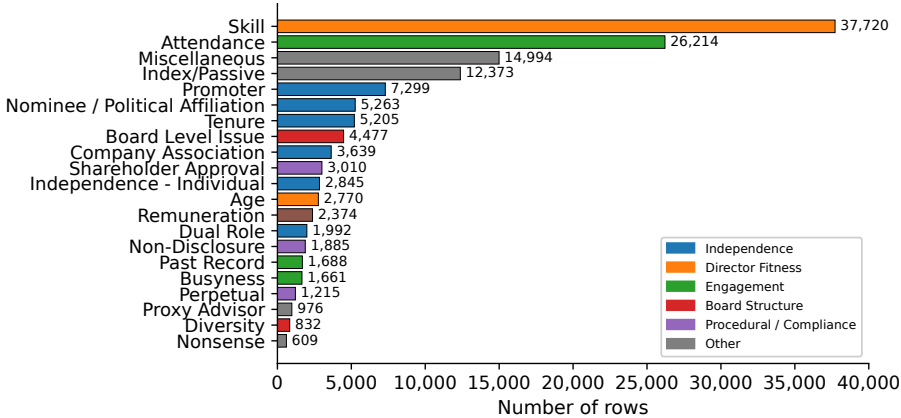
method by fund house

Themes are mostly filed alone



- Diagonal cells are records carrying the theme; off-diagonal cells are records carrying both
- The one large pairing is *Engagement* with *No Concern* (22,562 records): attendance flagged, and no concern recorded about it

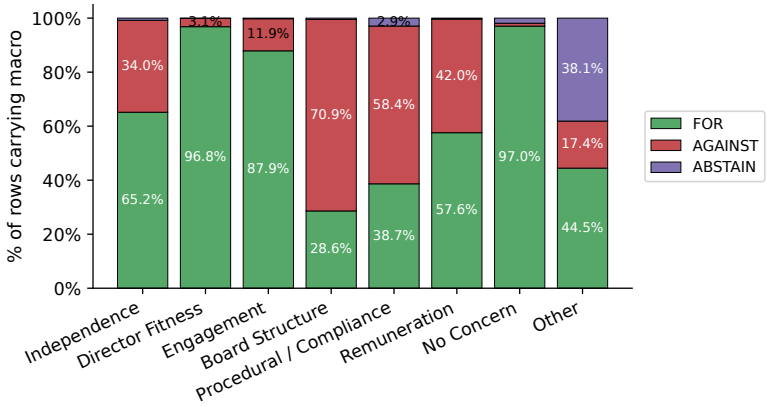
The twenty-one concern tags, by frequency



- *No Concern* (71,013 rows) and *Statutory Compliance* (88,133) are dropped as the baseline
- *Skill* and *Attendance* alone are 63,934 rows, more than the other nineteen tags combined

inside each theme

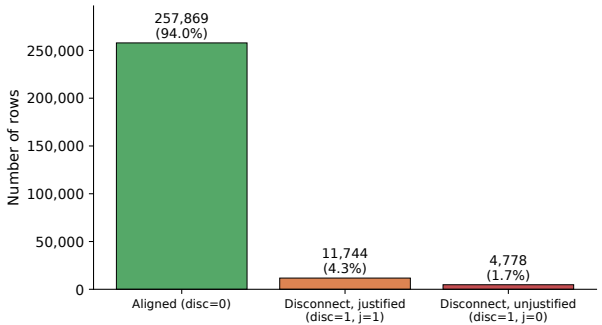
Which themes funds actually vote against



- *Board Structure* 70.9% against and *Procedural* 58.4% are the only themes where dissent is the majority
- *Director Fitness* (96.8% in favor) and *No Concern* (97.0%) are filed almost exclusively alongside support

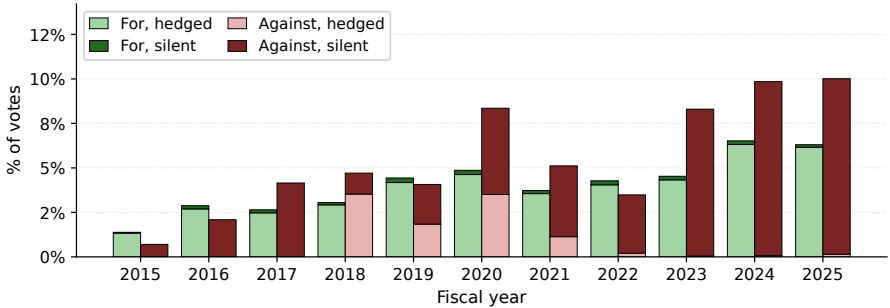
When the vote does not match the text

Disconnect = 1 when the *direction* of the vote clashes with the *sentiment* of the rationale filed with it: a vote in favour alongside a stated concern, or a vote against alongside a text that raises none. **Justified** = 1 when that clash carries hedging language.



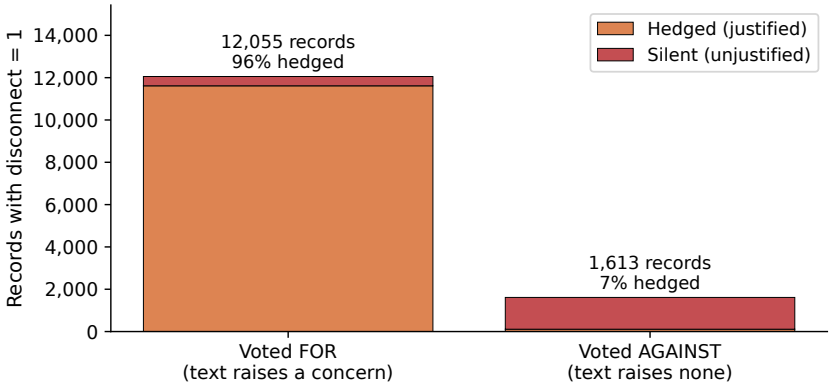
- Pooled over FY2015 to FY2026: 94.0% aligned, 4.3% disconnected with hedging, 1.7% disconnected without

Disconnects are small pooled, and growing



- Disconnects run at about 6% of records, and the share rises through the sample
- Unjustified against-disconnects climb fourteen-fold: under 1% in FY2015 to about 10% in FY2025

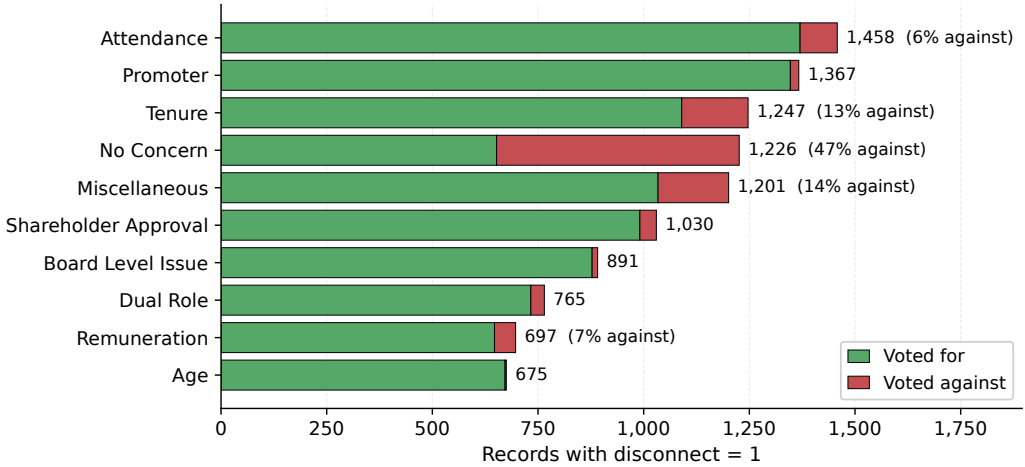
Funds hedge when they support, and go silent when they oppose



- Supporting a director the text criticises is hedged in 96% of cases: the fund writes down why it voted for anyway
- Opposing one the text says nothing against is hedged in 7%: the dissent goes on the record with no reason attached

by theme

Which concerns funds vote in favor of anyway



- *Attendance*, *Promoter* and *Tenure* are over 90% in-favor disconnects: concern raised, support hedged
- *No Concern* is the only topic with a large against share ($\approx 47\%$): a compliance line on a dissenting vote

H1: What explains how much a rationale says

- The circular requires a rationale for every vote but says nothing about its substance: length, specificity and boilerplate vary widely in the disclosed text
- If rationale quality tracks the governance circumstances of the firm being voted on, observable firm characteristics should explain much of the cross-section
- If it instead reflects the fund's own house style, the variation sits at the fund-identity level: within firm, within resolution type, within year

H1 (null): observable firm characteristics fully explain the cross-sectional variation in disclosure quality, with no incremental contribution from AMC characteristics or mutual fund identity

Measuring what funds write

Corpus: 870,492 resolution-level rationale rows, forty-five per-AMC workbooks mapped to thirty-nine AMC keys, FY2012 through FY2025.

Eight cell-level inputs

Length: median character length, mean word count

Boilerplate: matches against a phrase lexicon mined within each (AMC, resolution type, vote direction) group

Modal template: share of rows equal to the fund's single most frequent rationale for that kind of vote

Similarity: cosine distance of the rationale embedding to the fund centroid, the industry centroid, and to peer funds voting the same resolution at the same meeting

Embeddings: `all-MiniLM-L6-v2`, 384 dimensions. Six of the eight inputs are sign-flipped before standardising, so higher always means higher quality.

Four retained components (86.3% of variance)

PCA1 Disclosure Quality (39.2%): long and distinctive, free of template text

PCA2 Fund/Industry Similarity (20.7%): the distinctiveness dimension, net of length

PCA3 Boilerplate Phrase (15.5%): driven by the mined-phrase indicators

PCA4 Disclosure Structure (10.9%): long rationales that nevertheless collapse onto a within-fund template

A ninth proxy, cosine similarity to the IiAS rationale, is computed but excluded from the PCA: that field is non-null in only about 36% of rows and would force the estimation sample down sharply.

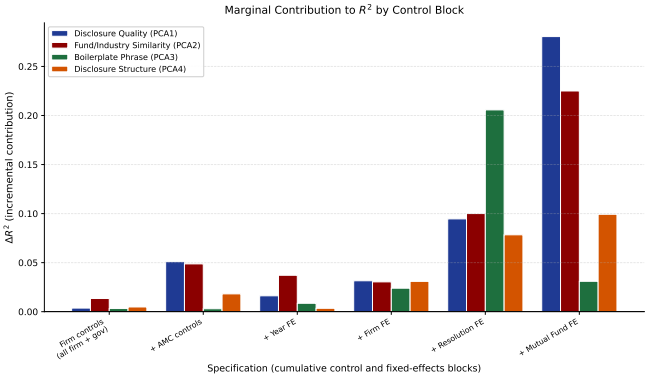
Inputs Loadings

Specification: determinants of disclosure quality (H1)

$$DQ_{i,p,j,t} = \beta_0 + \gamma_{\text{firm}}\, FirmCtrls_{j,t} + \gamma_{\text{amc}}\, AMCCtrls_{i,t} + \alpha_j + \tau_t + \alpha_p + \alpha_i + \varepsilon_{i,p,j,t}$$

- The test is **not** a coefficient: it is where the explanatory power sits. Six nested specifications, added one block at a time:
  - (1) firm controls $\rightarrow$ (2) +AMC controls $\rightarrow$ (3) +year FE $\rightarrow$ (4) +firm FE $\rightarrow$ (5) +resolution-type FE $\rightarrow$ (6) +mutual fund FE
- Firm block: *Size*, *ROA*, *Cash Holdings*, *Leverage*, *Excess Return* and *Market-to-book*, plus RPT, external financing, dividend and Big-4, plus the full board block (CEO duality, independence, busy share, and the Prime Database financial-expert and banking-experience independent shares)
- AMC block: *ln(AMC AUM)*, equity share of AUM, implied flow ratio, AUM-weighted expense ratio, AUM-weighted turnover, AUM-weighted rating
- All six columns are run on a consistent sample, so the R^2 values are comparable
- Standard errors clustered at the firm level

Rationale quality is a property of the fund, not the firm



- Every firm characteristic we have explains **0.4%** of PCA1; fund identity alone adds **28 pp**
- Boilerplate is the exception: a **resolution** property, +20.6 pp from one block

A rationale is driven by **the fund that wrote it**, not the firm it is about

R^2 table

H2: How funds vote

- Passivity becomes visible: an abstention is now an AMC, a firm and a resolution that must be named and explained, which raises the reputational cost of sitting out
- Voting also becomes expensive: a defensible rationale is a fixed cost per resolution, so a fund that abstained because evaluation was costly must pay that cost to vote at all
- Where the substitution lands, on support or on dissent, and whether it is uniform across resolution types, is not pinned down by the mandate
- A fund facing that cost has three responses, and we test all three: how it votes on the **ballot**, whether it leans on the **proxy advisor** rather than reason on its own, and whether it keeps holding the **firm** at all

H2 (null): mandatory rationale disclosure has no effect on funds' propensity to oppose or abstain, on the alignment of their votes with IiAS recommendations, or on which firms they hold

Specification: fund voting (H2)

$$Vote_{i,p,j,t} = \beta_0 + \beta_1 Post_t + \gamma Controls_{j,p,i,t} + \alpha_j + \alpha_i + \alpha_p + \varepsilon_{i,p,j,t}$$

- Unit: AMC i $\times$ firm j $\times$ resolution type p $\times$ fiscal year t
- Outcomes, in turn: *Abstain_count*, *Against_count*, *For_count*, and each one's proportional analogue (the count divided by total votes in the cell)
- α_j, α_i, α_p: firm, mutual fund and resolution-type fixed effects, in every column
- Three columns per panel:
  - (1) fixed effects only
  - (2) + firm controls: *Size*, *ROA*, *Cash Holdings*, *Leverage*, *Excess Return*, *Market-to-book*, *Total RPT*, *Total External Financing*, *Dividend Indicator*, *CEO Duality*, *Board Independence*, *Busy Director*, *Big-4 Auditor*
  - (3) + fund controls: *Holdings*, *AUM Rating*, *ln(AMC AUM)*
- Standard errors clustered at the two-digit NIC industry level

Abstentions collapse; active votes take their place

	Abstain_count			*Against_count*			*For_count*		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Post	-0.672^{***}	-0.541^{***}	-0.208^{***}	0.040^{***}	0.054^{***}	0.036^{***}	0.624^{***}	0.624^{***}	0.458^{***}
	(-39.79)	(-22.44)	(-4.81)	(10.84)	(12.01)	(5.68)	(21.68)	(15.38)	(7.98)
Firm controls	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
AMC controls	No	No	Yes	No	No	Yes	No	No	Yes
Firm / Fund / Reso FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	73,379	73,371	33,072	73,379	73,371	33,072	73,379	73,371	33,072
Adj. R^2	0.196	0.199	0.197	0.047	0.048	0.068	0.227	0.229	0.240

- Pre-mandate mean *Abstain_count* is **0.78**, so the saturated estimate is a **27% decline**
- Every abstention that disappears has to go somewhere, and it goes mostly to *For*
- *Against* rises as well, but by an order of magnitude less: a large participation margin, a small dissent margin

*, **, *** denote significance at the 10%, 5% and 1% levels; *t*-statistics in parentheses.

full Table 3

The same result in shares, not counts

	Abstain_prop			*Against_prop*			*For_prop*		
	(1)	(2)	(3)	(1)	(2)	(3)	(1)	(2)	(3)
Post	−0.366***	−0.293***	−0.093***	0.017***	0.022***	0.017***	0.349***	0.270***	0.077***
	(−51.39)	(−21.92)	(−4.88)	(14.17)	(13.84)	(4.05)	(49.69)	(19.99)	(3.66)
Firm controls	No	Yes	Yes	No	Yes	Yes	No	Yes	Yes
AMC controls	No	No	Yes	No	No	Yes	No	No	Yes
Firm / Fund / Reso FE	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Observations	73,379	73,371	33,072	73,379	73,371	33,072	73,379	73,371	33,072
Adj. R^2	0.329	0.336	0.317	0.062	0.063	0.076	0.310	0.317	0.293

- Shares net out agenda length: the count result is not an artifact of a longer ballot

Requiring a reason changes the vote.
Funds stop sitting out, and they do not simply rubber-stamp.

*, **, *** denote significance at the 10%, 5% and 1% levels; t-statistics in parentheses.

full Table 4

Dissent concentrates where monitoring has teeth

	Proportional outcomes, Post coefficient (t)		
Resolution category	*Abstain_prop*	*Against_prop*	*For_prop*
Auditor	−0.392*** (−38.82)	0.058*** (13.14)	0.334*** (29.72)
Compensation / ESOPs	−0.376*** (−39.51)	0.021*** (6.01)	0.355*** (36.58)
Director appointment	−0.373*** (−48.07)	0.017*** (11.52)	0.357*** (45.18)
Fund-raising	−0.400*** (−21.44)	0.017*** (7.52)	0.383*** (20.67)
Dividend	−0.399*** (−38.70)	0.000 (1.51)	0.398*** (38.40)
Adoption of accounts	−0.331*** (−26.73)	0.001 (0.90)	0.330*** (26.69)
Related-party transaction	−0.369*** (−10.84)	0.044 (1.20)	0.325*** (6.86)
Miscellaneous	−0.353*** (−19.43)	0.007 (0.78)	0.346*** (16.39)

- The abstention decline is uniform across all eight buckets
- The dissent increase is not. It loads on **auditor approvals**, **compensation and ESOPs**, **director appointments** and **fund-raising**
  - Those four decide who monitors the firm and whether the minority is diluted

*, **, *** denote significance at the 10%, 5% and 1% levels; *t*-statistics in parentheses.

count outcomes

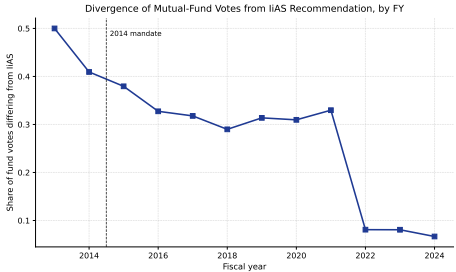
Margin two: whose reasoning goes on the record

Writing a reason is costly, and the fund does not have to write its own. The dominant proxy advisor has already written one.

- Disclosure could license independence: a public forum for reasoning lowers the cost of voting against the proxy advisor, provided the deviation is defensible in writing
- Or it could price independence out: every deviation now needs a written justification of its own, while citing ISS is on the record, prepared by a third party, and signals non-arbitrary voting
- Descriptive, not causal: pre-mandate ISS coverage in Adrian is too thin to support a pre/post test, so these frames report a post-mandate trend and no specification

H2 (null), second margin: rationale disclosure has no effect on the alignment of mutual fund votes with ISS recommendations over the post-mandate period

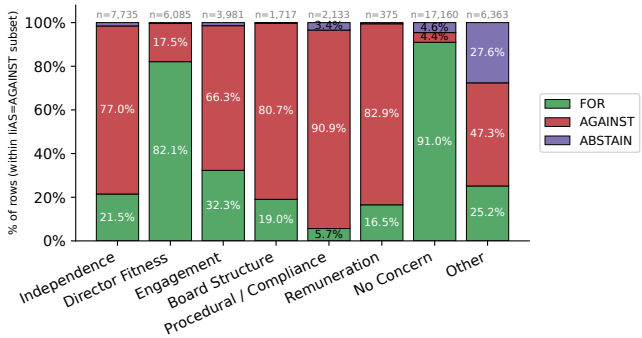
Funds converge on the proxy advisor, not away from it



- *Diverge from IiAS*: share of votes in a cell differing from the contemporaneous IiAS recommendation
- Divergence falls from **41%** in FY2014 to **29%** in FY2018, and keeps falling after
- Descriptive, not causal: under 1,100 IiAS recommendations a year before FY2015, over 50,000 after
- The post-FY2021 break is a coding change; the FY2015 to FY2018 trend does not depend on it

The cheapest defensible reason to put on the record is **the advisor's**

Where funds break with the proxy advisor



- Votes where IiAS recommended against, split by the theme of the fund's own rationale
- Funds follow on substance: *Procedural* 90.9% against, *Remuneration* 82.9%, *Independence* 77.0%
- They break where their own text raises no substantive concern: *No Concern* 91.0% in favor, the largest block of the eight

Convergence is **not uniform**: funds part with IiAS where they have **nothing of their own** to say

Margin three: specification, portfolio composition

Next we look at who funds hold, to test whether the cheapest way to avoid writing a reason is to stop owning the firm that would need one.

$$Own_{j,c,t} = \beta_1 \, Post_t \times MF_c \times WeakGov_j + \beta_2 \, Post_t \times WeakGov_j + \gamma \, Trends_{j,c,t} + \alpha_{j,c} + \tau_{t,c} + \varepsilon_{j,c,t}$$

- Unit: firm j × investor class c × fiscal year t, FY2011 to FY2018, $N = 49{,}538$
- Two classes per firm-year: mutual funds and UTI, whom the mandate covered, against all **other non-promoter institutions** (foreign investors, banks, insurers), whom it did not
- *Own*: the class's stake in percent of equity, from the Prowess shareholding pattern
- *WeakGov*: a pre-mandate score on five characteristics, CEO duality, board independence, director busyness, related-party intensity and a non-Big-4 auditor, averaged over FY2011 to FY2014 and standardised. Fixed *before* the mandate, so it describes the firm and not a response to the rule
- $\alpha_{j,c}$ and $\tau_{t,c}$ absorb *WeakGov*, *MF*, *Post* and *Post* × *MF*. The coefficient of interest is β_1
- *Trends*: firm-type linear trends, so only a break from an existing drift counts. Errors clustered at the firm

Funds tilt away from weakly governed firms

	(1) No trends	(2) + Firm-type trends	(3) + Pre-mandate size	(4) Balanced firm panel
Post × *MF* × *WeakGov*	−0.339*	−0.591***	−0.617***	−0.643***
	(−1.72)	(−3.56)	(−3.71)	(−3.79)
Post × *WeakGov*	0.098	0.340***	0.344***	0.387***
	(0.62)	(2.64)	(2.68)	(2.94)
Firm-type linear trends	No	Yes	Yes	Yes
Observations	49,538	49,538	49,538	45,840

- One standard deviation of *WeakGov* cost a firm **0.59 pp** of mutual fund ownership, about a quarter of the 2.51% held before
- Not size rotation: controlling for **size** barely moves β_1
- **Intensive, not extensive**: funds trimmed the stake rather than exiting

*, **, *** denote significance at the 10%, 5% and 1% levels; *t*-statistics in parentheses.

event time full tables

H3: How firms respond

- A visible dissent record gives firms a reason to act before opposition becomes public
- Formal board structure is pre-empted by statute, so there is little room to respond
- The slack is qualitative: CEO duality, director busyness, board expertise, payout and financing

H3 (null): institutional opposition, and its greater visibility after mandatory rationale disclosure, has no effect on firms' subsequent governance practices or board quality

Specification: firm governance (H3)

$$Y_{j,t} = \beta_0 + \beta_1 \left(Post_t \times Treat_j\right) + \beta_2\, Treat_j + \gamma\, Controls_{j,t} + \alpha_j + \tau_t + \varepsilon_{j,t}$$

- Unit: firm $j \times$ fiscal year t. Firm and year fixed effects throughout
- $Treat = 1$ for the top tercile of **pre-mandate** institutional ownership, $= 0$ for the bottom tercile; the middle tercile is dropped
  - Measured before the mandate, so it is not a function of the post-period behaviour being tested
- Controls: *Size*, *ROA*, *Cash Holdings*, *Leverage*, *Excess Return*, *Market-to-book*, each winsorised at the 1st and 99th percentiles
- Five outcome families, estimated separately: related-party transactions, board composition, auditor choice, payout policy, external financing
- Standard errors clustered at the two-digit NIC industry level

The prediction is **sharp**: a response where statute leaves slack, nothing where it does not

Boards change where statute leaves room

	(1) *Board Independence*	(2) *CEO Duality*	(3) *Busy Director*	(4) *Board Expertise*	(5) *Banker on Board*
Post × Treat	0.002	−0.028*	−0.017*	0.035**	0.016*
	(0.25)	(−1.93)	(−1.89)	(2.46)	(1.69)
Firm FE / Year FE	Yes	Yes	Yes	Yes	Yes
Firm controls	Yes	Yes	Yes	Yes	Yes
Observations	16,840	16,840	16,840	8,031	8,031
Adj. R^2	0.417	0.678	0.727	0.803	0.837

- Column (1) is the placebo the design predicts. Section 149 already fixes the independence ratio, so there is nothing for institutional pressure to move, and nothing moves
- CEO duality falls **2.8 pp**, busy-director share **1.7 pp**; financial expertise rises **3.5 pp** and banking experience **1.6 pp**

*, **, *** denote significance at the 10%, 5% and 1% levels; t-statistics in parentheses.

full Table 6

Payout falls, equity issuance rises, auditor choice does not move

Outcome family	Dependent variable	Post × Treat	t	N
Payout	*Dividend Indicator*	-0.055^{***}	(-4.47)	17,292
	Dividend Count	-0.045^{**}	(-2.64)	17,292
External financing	*Total External Financing*	0.019	(1.01)	16,744
	Equity Finance	0.015^{***}	(3.41)	16,744
	Debt Finance	0.013	(0.84)	16,744
Related-party transactions	*Total RPT*	0.026^{**}	(2.20)	15,424
	Operating RPT	0.015^{*}	(1.90)	15,424
	Financial RPT	0.006	(0.92)	15,424
Auditor choice	*Big-4 Auditor*	0.004	(0.45)	16,884
	Big-8 Auditor	0.001	(0.18)	16,884

- Dividends fall **5.5 pp** and equity issuance rises **1.5 pp of assets**: retention and external equity in place of payout
- Operating RPTs rise **1.5 pp** while financial RPTs do not move: oversight of routine operations, not blanket restriction
- Auditor choice is the second placebo, and the Big-4 market among large Indian listed firms is close to saturated

*, **, *** denote significance at the 10%, 5% and 1% levels; t-statistics in parentheses.

full Table 6

Three findings

- **What funds write is a fund identity, not a firm circumstance**
  - Firm characteristics explain $< 1\%$ of disclosure quality • AMC controls add 5 pp • Fund fixed effects add **28** pp

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- **Funds stop abstaining**: -0.21 abstentions per cell, against a pre-mandate mean of 0.78
  - Most of the substitution is *support*, not dissent • Dissent rises on auditors ($+5.8$ pp), pay ($+2.1$), directors ($+1.7$), fund-raising ($+1.7$)
  - Votes move *towards* the proxy advisor, not away: divergence from IiAS falls from 41% to 29% over FY2014 to FY2018 • And funds tilt out of weakly governed firms, -0.59 pp per standard deviation

Three findings

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  - Votes move *towards* the proxy advisor, not away: divergence from IiAS falls from 41% to 29% over FY2014 to FY2018 • And funds tilt out of weakly governed firms, -0.59 pp per standard deviation
- **Firms respond on the qualitative governance margins**
  - CEO duality -2.8 pp, busy directors -1.7 pp, financial expertise $+3.5$ pp • Formal independence and Big-4 share unchanged

Contribution

- **Mandatory disclosure.** The literature studies what happens when an outcome becomes public. Here the reasoning becomes public, with the outcome already disclosed since 2010. The 2014 mandate therefore isolates the price of explanation from the price of visibility
- **Institutional voting and stewardship.** Prior work infers fund preferences from the vote. We observe the stated reason for 870,492 votes, and find that the reason is mostly about the fund
- **Proxy advisors.** Alignment with the advisor is usually read as influence or as cost-efficient delegation. A rationale mandate gives a third reading: the advisor's recommendation is a ready-made defensible justification, and demand for it rises with the cost of writing one's own
- **Setting.** AMC-level voting, a two-stage disclosure regime, and a mandated rationale field make India an unusually clean laboratory for separating these channels

Limitations

- Endogeneity. The mandate is universal, so the voting tests have no untreated funds. Identification rests on the timing of a sharp, pre-announced rule and on resolution-level heterogeneity that a secular trend would not produce
  - The firm-level tests (H3) do have a control group: bottom-tercile institutional ownership

- Measuring quality. Eight text proxies and a PCA, plus a large-language-model classification of what the rationale says
  - The classifier is not a deterministic function: a repeated run moves labels at the margin
  - We plan to re-run on an open-source model at a fixed seed

Conclusion

Mandating the **reason** for a vote, not just the vote,
disciplines the documentation channel as much as the voting channel.

- The text funds produced is fund-specific style: a rationale is driven by the fund that wrote it, not the firm it is about
- Funds nonetheless voted more and abstained far less, and dissent rose selectively. But alignment with the dominant advisor rose, and funds tilted out of the firms hardest to defend
- Investee firms responded on the margins statute had left open
- For regulators weighing stewardship mandates, the design question is therefore not whether to require explanation but **how to make an independent explanation cheap enough to be worth writing**
- In progress: large-language-model topic modelling of the rationale corpus, and whether retail flows respond to disclosure substance

Thank you

Comments and suggestions are very welcome

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Appendix

Sample construction

	Observations
Initial AMC-firm-resolution-category-year observations (Adrian, FY2011 through FY2018)	78,201
Less: missing financial controls from Prowess	(4,751)
Less: missing mutual fund vote	(52)
Less: singleton observations under the fixed-effects structure	(19)
Final sample	73,379

- Attrition is 6.2% and almost all of it is the Prowess financial-controls merge
- The 52 missing votes and 19 singletons are immaterial
- The AMC-controls specification is a separate restriction: Morningstar covers equity schemes only, which takes the sample to 33,072

back

Distribution of resolutions

Resolution type	Freq.	Percent
Director appointment	13,349	18.19
Auditor	12,120	16.52
Adoption of accounts	12,104	16.50
Dividend	11,064	15.08
Compensation / ESOPs	8,767	11.95
Fund-raising	7,829	10.67
Miscellaneous	6,508	8.87
Related-party transaction	1,638	2.23
Total	73,379	100.00

- Four buckets carry two thirds of the sample: director appointments, auditor, adoption of accounts, and dividends
- Related-party transactions are only 2.2% of cells, which is why the RPT voting coefficient is imprecise in the heterogeneity table even though the firm-level RPT result is not

back

Tables 3 and 4, full control block: *Abstain*

	Abstain_count		*Abstain_prop*	
	(2)	(3)	(2)	(3)
Post	−0.541*** (−22.44)	−0.208*** (−4.81)	−0.293*** (−21.92)	−0.093*** (−4.88)
Size	−0.272*** (−7.78)	−0.103* (−1.74)	−0.159*** (−9.26)	−0.092*** (−3.20)
ROA	0.615*** (3.07)	0.308 (1.08)	0.333*** (3.74)	0.166 (1.17)
Cash Holdings	−0.187 (−1.48)	−0.335 (−1.57)	−0.347*** (−6.84)	−0.320*** (−3.73)
Leverage	0.316** (2.65)	0.090 (0.64)	0.117* (1.95)	0.086 (1.17)
Excess Return	0.013 (1.02)	−0.008 (−0.50)	0.004 (0.62)	−0.008 (−1.10)
Market-to-book	−0.001 (−0.34)	0.006** (2.00)	0.000 (0.02)	0.003 (1.46)
Total RPT	−0.022 (−0.32)	0.006 (0.07)	−0.043* (−1.95)	−0.036 (−0.87)
Total External Financing	−0.029 (−0.65)	−0.104 (−1.65)	0.018 (0.86)	−0.041 (−1.20)
Dividend Indicator	−0.018 (−0.59)	−0.048* (−1.68)	0.004 (0.26)	−0.007 (−0.49)
CEO Duality	−0.022 (−0.63)	0.018 (0.47)	−0.001 (−0.08)	0.003 (0.18)
Board Independence	0.212* (1.99)	−0.215 (−1.59)	0.054 (1.06)	−0.107 (−1.34)
Busy Director	−0.007 (−0.10)	0.030 (0.33)	0.016 (0.54)	0.001 (0.01)
Big-4 Auditor	−0.019 (−0.37)	−0.089* (−1.69)	0.000 (−0.01)	−0.022 (−0.73)
Holdings	—	−11.677*** (−9.37)	—	−6.721*** (−9.79)
AUM Rating	—	−0.036* (−1.74)	—	−0.024* (−1.92)
ln(AMC AUM)	—	−0.178*** (−4.65)	—	−0.065*** (−4.00)
Firm / Fund / Reso FE	Yes	Yes	Yes	Yes
Observations	73,371	33,072	73,371	33,072
Adj. R^2	0.199	0.197	0.336	0.317

back

Tables 3 and 4, full control block: *Against*

	Against_count		*Against_prop*	
	(2)	(3)	(2)	(3)
Post	0.054^{***} (12.01)	0.036^{***} (5.68)	0.022^{***} (13.84)	0.017^{***} (4.05)
Size	-0.025^{***} (-4.78)	-0.034^{***} (-3.74)	-0.009^{***} (-5.32)	-0.014^{***} (-3.11)
ROA	-0.100^{*} (-1.87)	-0.022 (-0.45)	-0.037^{**} (-2.18)	-0.006 (-0.18)
Cash Holdings	0.054^{**} (2.59)	0.034 (1.22)	0.024^{***} (2.86)	0.024 (1.52)
Leverage	0.087^{***} (3.71)	0.104^{***} (2.96)	0.032^{***} (3.66)	0.037^{***} (2.71)
Excess Return	-0.004 (-1.61)	-0.004 (-1.23)	-0.001 (-1.41)	-0.001 (-1.17)
Market-to-book	-0.003^{***} (-3.28)	-0.001 (-1.10)	-0.001^{*} (-1.99)	0.000 (0.02)
Total RPT	0.023 (1.03)	-0.016 (-0.97)	0.005 (0.63)	-0.007 (-0.80)
Total External Financing	0.021 (0.72)	0.013 (0.68)	0.001 (0.09)	-0.003 (-0.32)
Dividend Indicator	0.008 (0.88)	-0.015 (-1.01)	0.003 (0.77)	-0.010 (-1.51)
CEO Duality	0.001 (0.13)	0.001 (0.08)	0.002 (0.78)	0.000 (0.09)
Board Independence	0.031^{*} (1.85)	0.002 (0.08)	0.006 (0.78)	-0.004 (-0.34)
Busy Director	-0.004 (-0.34)	0.001 (0.08)	-0.001 (-0.16)	0.001 (0.11)
Big-4 Auditor	0.009 (0.65)	0.000 (0.03)	-0.002 (-0.60)	-0.004 (-0.61)
Holdings	—	0.194 (1.15)	—	0.161^{**} (2.14)
AUM Rating	—	-0.035^{***} (-6.19)	—	-0.013^{***} (-5.46)
ln(AMC AUM)	—	0.008 (0.93)	—	-0.003 (-0.92)
Firm / Fund / Reso FE	Yes	Yes	Yes	Yes
Observations	73,371	33,072	73,371	33,072
Adj. R^2	0.048	0.068	0.063	0.076

back

Tables 3 and 4, full control block: *For*

	For_count		*For_prop*	
	(2)	(3)	(2)	(3)
Post	0.624*** (15.38)	0.458*** (7.98)	0.270*** (19.99)	0.077*** (3.66)
Size	0.058 (0.99)	0.022 (0.20)	0.168*** (9.45)	0.105*** (3.73)
ROA	−0.624 (−1.31)	−0.627 (−1.01)	−0.296*** (−3.34)	−0.159 (−1.02)
Cash Holdings	0.860*** (4.06)	0.512 (1.32)	0.323*** (6.26)	0.296*** (3.35)
Leverage	0.498** (2.37)	0.296 (0.99)	−0.149** (−2.39)	−0.124 (−1.66)
Excess Return	0.003 (0.13)	0.049* (1.78)	−0.003 (−0.45)	0.010 (1.32)
Market-to-book	−0.024** (−2.29)	−0.024* (−1.72)	0.001 (0.65)	−0.003 (−1.38)
Total RPT	−0.040 (−0.45)	0.007 (0.06)	0.038 (1.63)	0.042 (0.99)
Total External Financing	−0.019 (−0.20)	−0.111 (−0.96)	−0.018 (−0.92)	0.044 (1.52)
Dividend Indicator	0.063* (1.97)	0.023 (0.45)	−0.007 (−0.49)	0.017 (1.16)
CEO Duality	−0.080 (−1.23)	−0.040 (−0.42)	−0.001 (−0.06)	−0.004 (−0.19)
Board Independence	0.471** (2.07)	0.727** (2.57)	−0.060 (−1.21)	0.111 (1.33)
Busy Director	−0.179* (−1.79)	−0.208 (−1.58)	−0.015 (−0.48)	−0.001 (−0.03)
Big-4 Auditor	−0.037 (−0.44)	0.045 (0.40)	0.002 (0.11)	0.026 (0.81)
Holdings	—	10.310*** (7.36)	—	6.560*** (9.66)
AUM Rating	—	0.004 (0.13)	—	0.037*** (3.14)
ln(AMC AUM)	—	−0.030 (−0.43)	—	0.068*** (4.32)
Firm / Fund / Reso FE	Yes	Yes	Yes	Yes
Observations	73,371	33,072	73,371	33,072
Adj. R^2	0.229	0.240	0.317	0.293

back

Resolution heterogeneity: count outcomes

	Count outcomes, Post coefficient (t)		
Resolution category	*Abstain_count*	*Against_count*	*For_count*
Auditor	−0.620*** (−29.27)	0.083*** (10.60)	0.523*** (8.18)
Compensation / ESOPs	−0.598*** (−21.41)	0.050*** (6.62)	0.875*** (14.85)
Director appointment	−1.408*** (−24.35)	0.066*** (10.83)	0.576*** (6.98)
Fund-raising	−0.613*** (−35.93)	0.028*** (7.62)	0.575*** (11.44)
Dividend	−0.433*** (−43.68)	0.000 (1.51)	0.366*** (26.41)
Adoption of accounts	−0.477*** (−22.22)	0.001 (0.83)	0.331*** (16.41)
Related-party transaction	−0.332*** (−5.08)	0.033 (0.56)	0.579*** (5.29)
Miscellaneous	−0.250*** (−5.39)	0.067*** (3.33)	1.687*** (14.70)

- Firm and fund fixed effects in every cell; each row is a separate regression on that bucket's subsample
- Director appointments show the largest abstention decline in levels (−1.408) because they are the most numerous bucket, 18.2% of cells
- The *For_count* coefficient for *Miscellaneous* (1.687) is a level effect in a bucket with many resolutions per meeting, which is why the proportional column is the one to read

*, **, *** denote significance at the 10%, 5% and 1% levels; t-statistics in parentheses.

back

Portfolio composition, Panel A: ownership level

	(1) *No trends*	(2) *+ Firm-type trends*	(3) *+ Pre-mandate size*	(4) *Balanced firm panel*
Post × *Mutual Fund* × *Weak Governance*	−0.339*	−0.591***	−0.617***	−0.643***
	(−1.72)	(−3.56)	(−3.71)	(−3.79)
Post × *Mutual Fund* × *Pre-Mandate Size*			0.559***	
			(3.07)	
Post × *Weak Governance*	0.098	0.340***	0.344***	0.387***
	(0.62)	(2.64)	(2.68)	(2.94)
Post × *Pre-Mandate Size*			−0.112	
			(−0.80)	
Firm × Investor Class FE	Yes	Yes	Yes	Yes
Year × Investor Class FE	Yes	Yes	Yes	Yes
Firm-type linear trends	No	Yes	Yes	Yes
Pre-mandate size interactions	No	No	Yes	No
Sample	Full	Full	Full	Firms in all eight years
Observations	49,538	49,538	49,538	45,840
Adjusted R^2	0.864	0.864	0.865	0.867

*, **, *** denote significance at the 10%, 5% and 1% levels; t-statistics in parentheses.

margins back

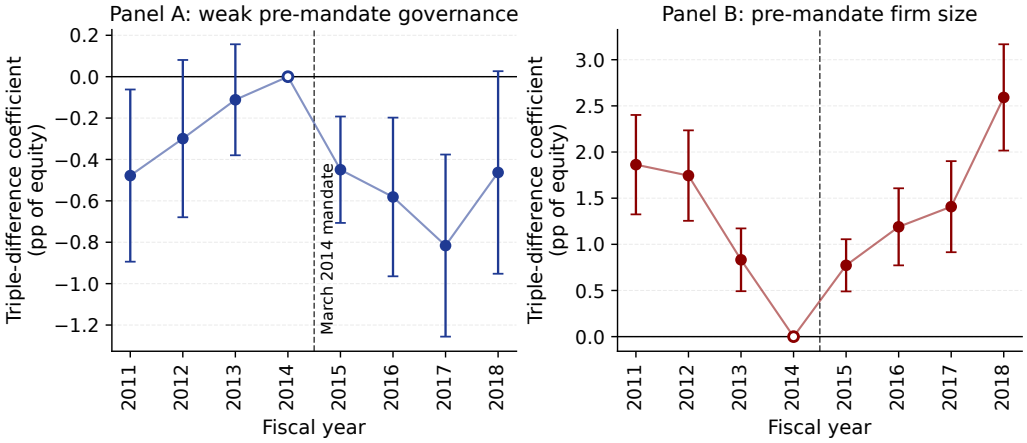
Portfolio composition, Panel B: extensive vs. intensive

	(1) *Ownership share (level)*	(2) *Holds any stake (extensive)*	(3) *Share given holding (intensive)*
Post × *Mutual Fund* × *Weak Governance*	−0.591***	−0.448	−1.024***
	(−3.56)	(−0.88)	(−3.88)
Post × *Weak Governance*	0.340***	0.155	0.467***
	(2.64)	(0.39)	(2.63)
Firm × Investor Class FE	Yes	Yes	Yes
Year × Investor Class FE	Yes	Yes	Yes
Firm-type linear trends	Yes	Yes	Yes
Observations	49,538	49,538	28,866
Adjusted R^2	0.864	0.866	0.856
Decomposition at pre-mandate mutual fund means			
P(hold)		0.495	
E[share | hold], percent of equity		5.073	
Extensive contribution, E[share | hold] × ΔP		−0.023	
Intensive contribution, P(hold) × ΔE[share | hold]		−0.507	
Extensive share of the explained effect		4.3%	

*, **, *** denote significance at the 10%, 5% and 1% levels; t-statistics in parentheses.

back

The break comes at the mandate, not before it



- Funds were *already* underweight these firms in FY2011 (-0.478), and the gap closed every year to FY2014
- Removing that drift therefore widens the post-mandate gap rather than closing it
- Panel B is the size tilt, which column (3) controls for

back

Table 6, Panel B: board composition

	(1) *Board Independence*	(2) *CEO Duality*	(3) *Busy Director*	(4) *Board Expertise*	(5) *Banker on Board*
Post × *Treat*	0.002	−0.028*	−0.017*	0.035**	0.016*
	(0.25)	(−1.93)	(−1.89)	(2.46)	(1.69)
Size	0.007**	0.032***	0.015***	−0.005	0.007**
	(2.42)	(3.16)	(3.84)	(−0.77)	(2.19)
ROA	−0.013	0.073*	−0.007	−0.052	0.009
	(−0.91)	(1.85)	(−0.37)	(−1.57)	(0.31)
Cash Holdings	−0.002	−0.033	0.009	0.094**	0.069***
	(−0.08)	(−0.56)	(0.45)	(2.06)	(2.72)
Leverage	−0.005	−0.018	−0.019**	−0.024	−0.014
	(−0.97)	(−1.04)	(−2.12)	(−1.58)	(−1.63)
Excess Return	−0.002*	0.005**	−0.001	0.004*	0.003
	(−1.73)	(2.26)	(−0.54)	(1.81)	(1.28)
Market-to-book	−0.001*	−0.000	0.001	−0.000	0.000
	(−1.85)	(−0.16)	(1.14)	(−0.67)	(0.58)
Firm FE	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes
Observations	16,840	16,840	16,840	8,031	8,031
Adjusted R^2	0.417	0.678	0.727	0.803	0.837

back

Table 6, Panel A: related-party transactions

	(1) *Total RPT*	(2) *Op RPT*	(3) *Fin RPT*
Post × *Treat*	0.026**	0.015*	0.006
	(2.20)	(1.90)	(0.92)
Size	−0.077***	−0.030***	−0.031***
	(−7.18)	(−2.96)	(−4.03)
ROA	0.048	0.074***	−0.008
	(1.30)	(2.87)	(−0.38)
Cash Holdings	0.096**	0.010	0.070**
	(2.19)	(0.33)	(2.09)
Leverage	0.027	−0.007	0.016
	(0.79)	(−0.82)	(1.01)
Excess Return	0.007*	0.002	0.004**
	(1.93)	(1.10)	(2.42)
Market-to-book	0.004***	0.003***	0.001*
	(3.47)	(3.47)	(1.72)
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	15,424	15,424	15,424
Adjusted R^2	0.516	0.603	0.412

back

Table 6, Panel C: auditor choice

	(1) *Big-4 Auditor*	(2) *Big-8 Auditor*
Post × *Treat*	0.004	0.001
	(0.45)	(0.18)
Size	0.025***	0.023***
	(4.47)	(4.32)
ROA	−0.034*	−0.036*
	(−1.95)	(−1.80)
Cash Holdings	0.052	0.032
	(1.56)	(0.96)
Leverage	−0.014	−0.015*
	(−1.61)	(−1.92)
Excess Return	−0.003***	−0.003***
	(−3.44)	(−3.12)
Market-to-book	0.002***	0.001*
	(3.80)	(1.68)
Firm FE	Yes	Yes
Year FE	Yes	Yes
Observations	16,884	16,884
Adjusted R^2	0.860	0.855

back

Table 6, Panel D: payout policy

	(1) *Dividend Indicator*	(2) *Dividend Count*
Post × *Treat*	−0.055***	−0.045**
	(−4.47)	(−2.64)
Size	0.021***	0.034***
	(3.80)	(4.38)
ROA	0.367***	0.473***
	(7.02)	(6.52)
Cash Holdings	0.120**	0.247**
	(2.05)	(2.41)
Leverage	−0.010	−0.004
	(−0.61)	(−0.22)
Excess Return	0.017***	0.028***
	(5.93)	(4.84)
Market-to-book	0.004***	0.006***
	(4.96)	(5.53)
Firm FE	Yes	Yes
Year FE	Yes	Yes
Observations	17,292	17,292
Adjusted R^2	0.738	0.732

back

Table 6, Panel E: external financing

	(1) *Total External Financing*	(2) *Equity Finance*	(3) *Debt Finance*
Post × *Treat*	0.019	0.015***	0.013
	(1.01)	(3.41)	(0.84)
Size	−0.014***	−0.027***	−0.033*
	(−3.60)	(−3.82)	(−1.86)
ROA	0.037*	0.005	−0.179**
	(1.82)	(0.42)	(−2.12)
Cash Holdings	0.012	0.016	0.020
	(0.45)	(0.82)	(0.78)
Leverage	0.021	0.029*	0.005
	(1.02)	(1.79)	(0.26)
Excess Return	0.002	0.003***	0.007
	(1.28)	(2.96)	(1.25)
Market-to-book	0.001	0.001	−0.004
	(0.66)	(1.02)	(−1.15)
Firm FE	Yes	Yes	Yes
Year FE	Yes	Yes	Yes
Observations	16,744	16,744	16,744
Adjusted R^2	0.348	0.110	0.343

back

The R^2 build-up behind the chart

R^2 of	(1) Firm controls	(2) + AMC controls	(3) + Year FE	(4) + Firm FE	(5) + Reso FE	(6) + Mutual Fund FE
Disclosure Quality (PCA1)	0.004	0.055	0.071	0.102	0.197	0.477
Fund/Industry Similarity (PCA2)	0.013	0.062	0.099	0.130	0.230	0.455
Boilerplate Phrase (PCA3)	0.003	0.006	0.015	0.039	0.244	0.275
Disclosure Structure (PCA4)	0.005	0.023	0.026	0.057	0.136	0.235
ΔR^2 from the block, PCA1	—	+0.051	+0.016	+0.032	+0.094	**+0.281**
F for the added block, PCA1	—	968.9***	312.4***	5.33***	1,799.7***	1,978.5***

- $N = 107{,}689$ in every column: the sample is locked to the most saturated specification, so the six R^2 values are comparable
- The two highlighted columns are the two bars that matter in the chart: resolution-type FE for boilerplate, mutual fund FE for everything else

*** denotes joint significance of the added block at the 1% level.

full Table 7 back

Table 7, full: determinants of disclosure quality

	(1) Firm controls	(2) + AMC controls	(3) + Year FE	(4) + Firm FE	(5) + Reso FE	(6) + Mutual Fund FE
Panel A: Disclosure Quality (PCA1)						
R^2	0.004	0.055	0.071	0.102	0.197	0.477
Adjusted R^2	0.004	0.055	0.071	0.096	0.191	0.474
ΔR^2 (vs. previous spec)	—	+0.051	+0.016	+0.032	+0.094	+0.281
F-stat for added block	—	968.9	312.4	5.33	1,799.7	1,978.5
p-value	—	<0.001	<0.001	<0.001	<0.001	<0.001
Panel B: Fund/Industry Similarity (PCA2)						
R^2	0.013	0.062	0.099	0.130	0.230	0.455
Adjusted R^2	0.013	0.062	0.099	0.124	0.224	0.451
ΔR^2 (vs. previous spec)	—	+0.049	+0.037	+0.030	+0.100	+0.225
F-stat for added block	—	932.1	739.5	5.30	1,984.0	1,521.0
p-value	—	<0.001	<0.001	<0.001	<0.001	<0.001
Panel C: Boilerplate Phrase (PCA3)						
R^2	0.003	0.006	0.015	0.039	0.244	0.275
Adjusted R^2	0.003	0.006	0.014	0.032	0.239	0.270
ΔR^2 (vs. previous spec)	—	+0.003	+0.009	+0.024	+0.206	+0.031
F-stat for added block	—	53.8	155.9	3.78	4,158.8	157.6
p-value	—	<0.001	<0.001	<0.001	<0.001	<0.001
Panel D: Disclosure Structure (PCA4)						
R^2	0.005	0.023	0.026	0.057	0.136	0.235
Adjusted R^2	0.005	0.023	0.026	0.051	0.130	0.229
ΔR^2 (vs. previous spec)	—	+0.018	+0.003	+0.031	+0.078	+0.099
F-stat for added block	—	333.3	63.5	4.98	1,385.0	478.4
p-value	—	<0.001	<0.001	<0.001	<0.001	<0.001
Observations	107,689	107,689	107,689	107,689	107,689	107,689

back

How the rationales were classified

Direction tells us *that* a fund dissented. The rationale tells us *why*. We classify the text itself.

Scope and unit

Director Appointments only: 277,356 of the 870,492 corpus records (31.9%), the largest of fifteen raw resolution categories and the one where fund judgment is least dictated by statute

274,391 records survive cleaning, FY2015 to FY2026

Taxonomy: twenty-three director characteristics in eight themes (independence, fitness, engagement, board structure, procedural, remuneration, no-mention, other)

The classification unit is the unique (rationale text, vote direction) pair, not the record: 274,391 records collapse to 63,373 pairs, and labels are joined back on that key

Two-pass classifier

Pass 1: thirty deterministic rules label 20,723 pairs (32.7%), the short repetitive tail. Each rule is self-tested for precision above 85% and dropped if it fails; all thirty clear it

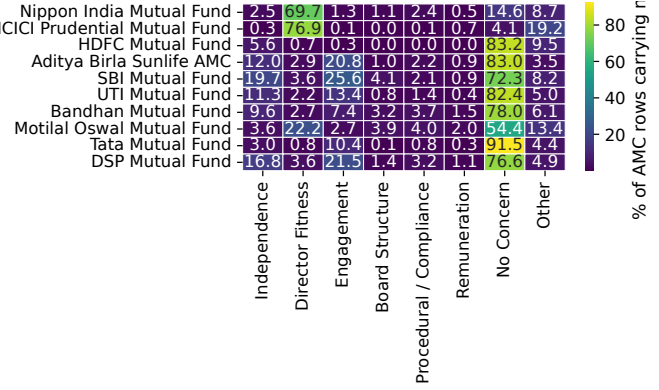
Pass 2: Claude Sonnet labels the remaining 42,650 pairs from the twenty-three definitions and the tie-breaking conventions

Each pair also carries *Disconnect* (vote direction clashes with the sentiment of the text) and *Disconnect justified* (the clash carries hedging language)

Validation: 23 of 25 (92%) on a pilot hand audit, a 200-rationale stratified audit in progress

validation back

The same resolutions, two different vocabularies

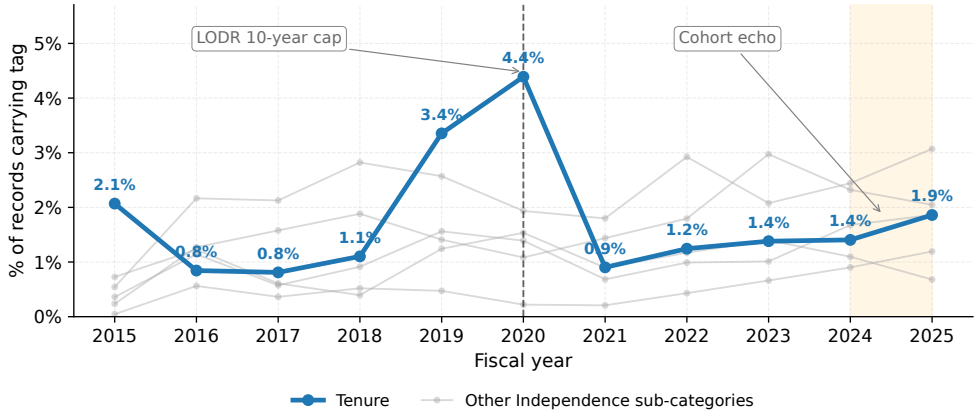


- Share of each fund house's records carrying each theme, ten largest AMCs
- ICICI Prudential files *Director Fitness* on 76.9% of records; Tata files *No Concern* on 91.5%

Same firms, same resolutions, same years: what moves is **the fund house**

back

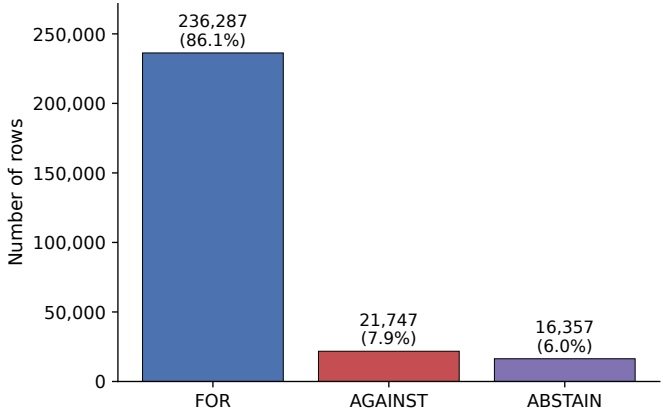
Validation: the labels recover a regulation they never saw



- Share of records flagging each *Independence* sub-category by fiscal year, *Tenure* highlighted
- Tenure peaks in FY2019 and FY2020, just before the SEBI LODR ten-year cap binds, then collapses as directors rotate off
- A second peak forms in FY2024 and FY2025, as the Companies Act 2013 cohort itself reaches ten years

back

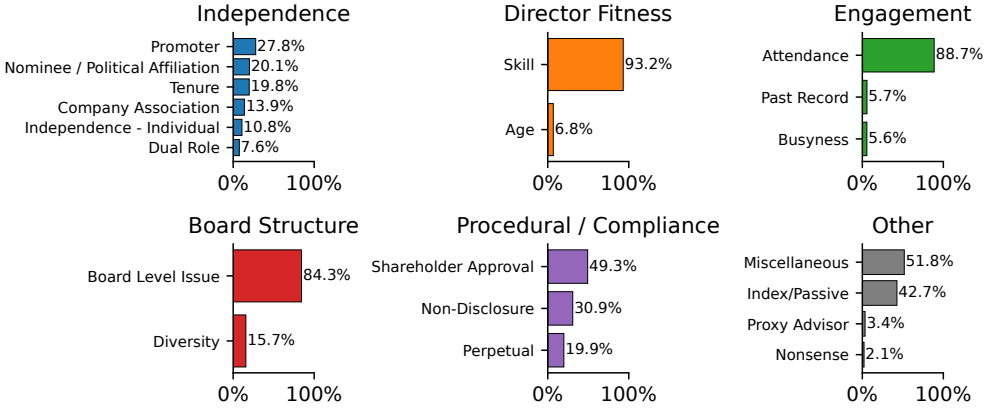
The classified corpus is overwhelmingly supportive



- Director-appointment records by vote direction: 86.1% in favor, 7.9% against, 6.0% abstain
- The denominator for every disconnect rate on the main deck

back

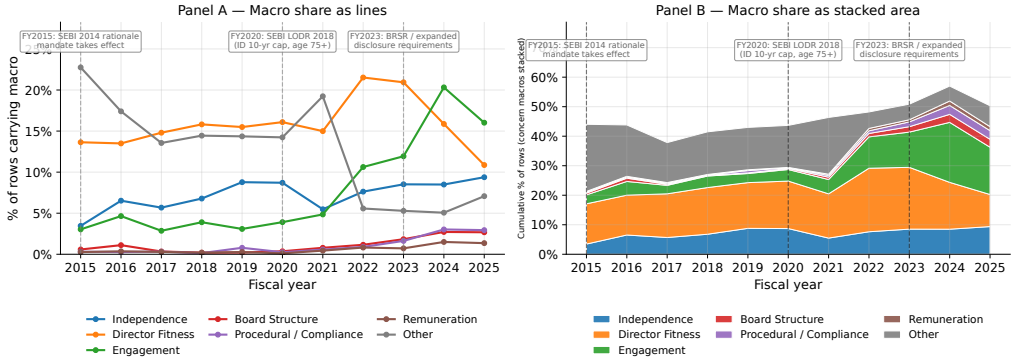
Inside most themes, one category does all the work



- *Skill* is 93.2% of Director Fitness and *Attendance* 88.7% of Engagement: the theme is effectively one tag
- *Independence* is the exception, spread across six categories with no single one above 28%

back

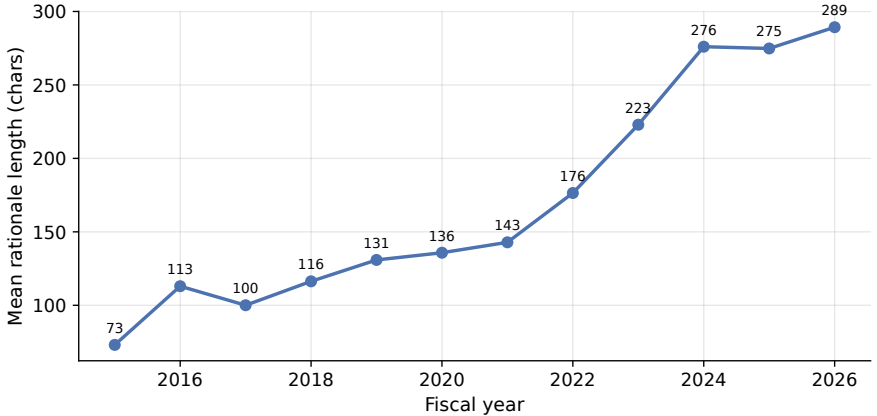
What funds write about has changed since the mandate



- *Engagement* steps up from 4.8% in FY2021 to 20.3% by FY2024; *Independence* roughly triples from 3.5% to 9.4%
- *Other*, the residual, falls from 22.8% to 7.1%: rationales become more specific, not merely longer

back

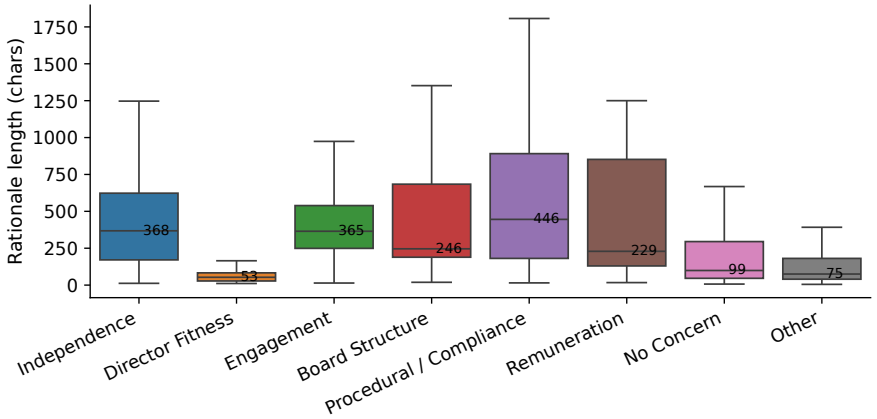
Rationales get four times longer over the sample



- Mean rationale length rises from 73 characters in FY2015 to 289 in FY2026, monotonically apart from FY2025
- Length is one of the eight standardised inputs to the disclosure-quality PCA, so this is a check that the measure tracks the raw text

back

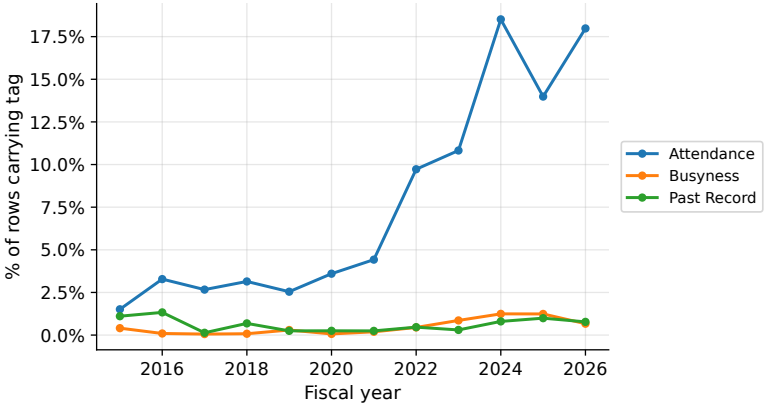
The most common theme is also the shortest



- Median length: *Procedural* 446 characters, *Independence* 368, *Engagement* 365, against *Director Fitness* at about 55
- The theme filed on a third of all records is the one with nothing written under it

back

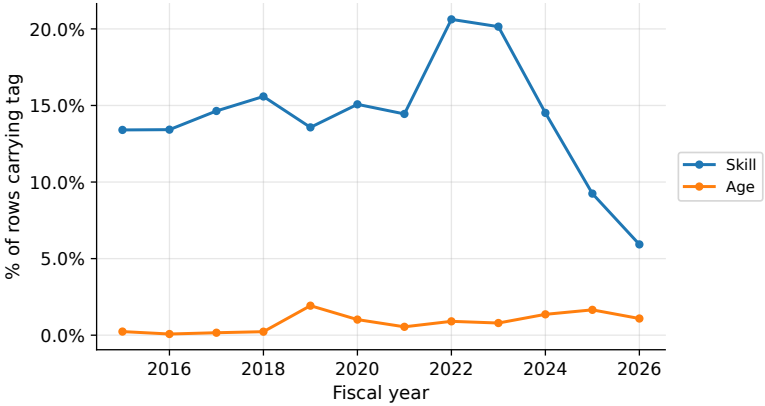
The Engagement rise is attendance, and nothing else



- *Attendance* climbs from 1.5% of records in FY2015 to 18.5% in FY2024, almost all of it after FY2021
- *Busyness* and *Past Record* stay under 1.5% throughout: the theme is one behavior, tracked

back

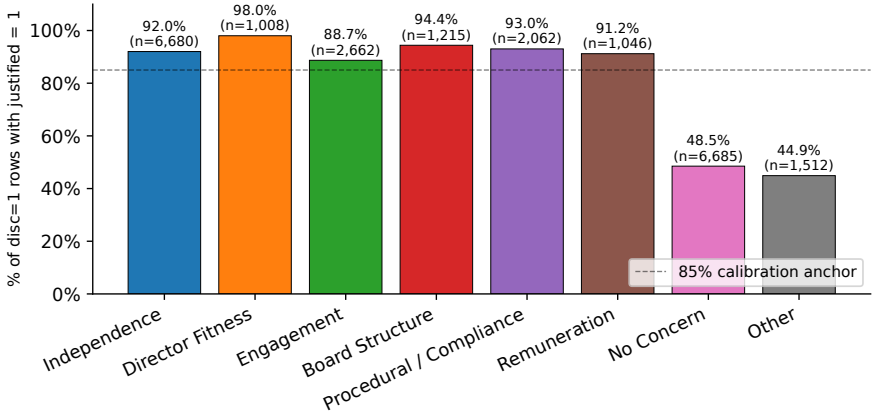
Director Fitness rises and then falls away



- *Skill* runs at 13.4% of records in FY2015, peaks at 20.6% in FY2022, then falls to 5.9% by FY2026
- *Age* never exceeds 1.9%, so the theme is a single tag the way Engagement is

back

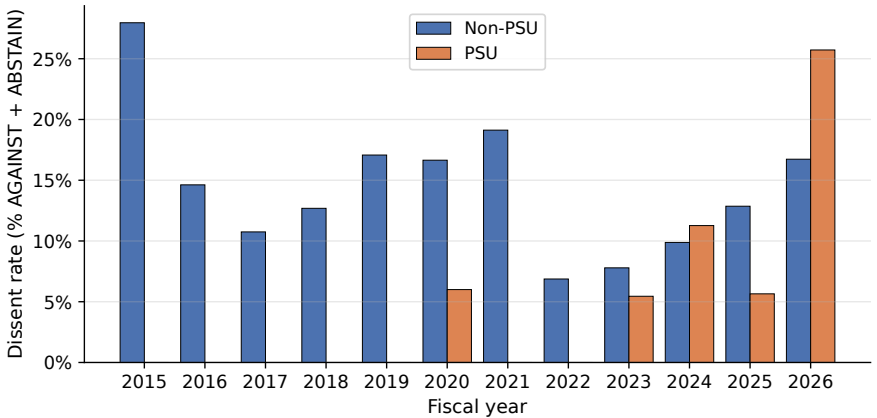
Hedging tracks substance, which is a calibration check



- Among disconnected records, hedging language appears in 88% to 98% of every substantive theme
- It appears in only 48.5% of *No Concern* and 44.9% of *Other*: a coin flip where there is nothing to hedge about

back

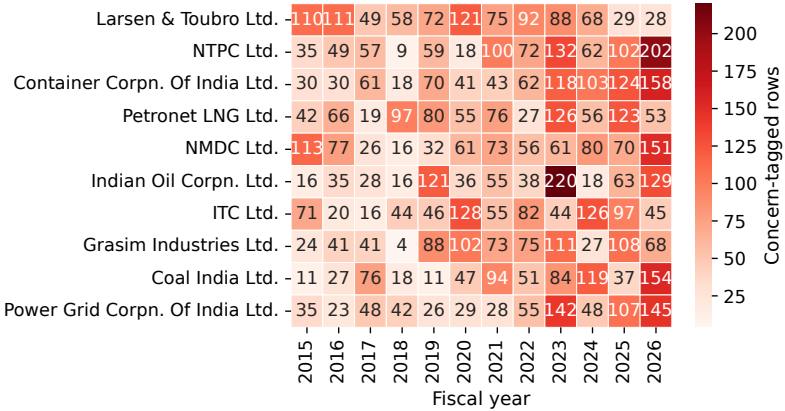
Dissent at state-owned firms, where it can be measured



- Non-PSU dissent falls from 28.0% in FY2015 to 10.8% in FY2017, then climbs back to 19.1% by FY2021
- The PSU series is populated only from FY2020, so the blank years are missing coverage and not an absence of dissent

back

Concerns concentrate in a small set of large firms



- Concern-tagged record counts by fiscal year for the ten firms that attract the most of them
- Seven of the ten are state-owned, and for most of them the count rises into FY2023 to FY2026 rather than falling

back

The eight standardised disclosure-quality inputs

PCA input	Source cell-level statistic	Sign	Proxy family
char_len_median	Median rationale character length	+	A1 length
word_len_mean	Mean rationale word count	+	A1 length
phrase_count_sum	Sum of boilerplate-phrase matches	−	A4 boilerplate
has_any_phrase_mean	Share of rows with any boilerplate phrase	−	A4 boilerplate
is_modal_template_mean	Share of rows equal to the modal template	−	B1 modal template
fund_centroid_cosine_median	Median cosine to fund centroid	−	B2 fund centroid
industry_centroid_cosine_median	Median cosine to industry centroid	−	B5 industry centroid
peer_cosine_mean_mean	Mean leave-one-out cosine to peer funds	−	C1 peer cosine

- Six of eight are sign-flipped before z-scoring, so a higher value always means higher quality
- Embeddings from `all-MiniLM-L6-v2` (384 dimensions); similarity is cosine, computed as a normalised dot product
- A ninth proxy, cosine similarity to the IiAS rationale, is computed but excluded: the IiAS rationale field is non-null in only 36% of rows
- PCA estimation sample: 220,154 cells with all eight inputs present. The Table 7 regression sample (107,689) is the subset with controls and fixed-effect dimensions

back

Eigenvalues and loadings

	DQ_PCA1	DQ_PCA2	DQ_PCA3	DQ_PCA4	Comp5	Comp6	Comp7	Comp8
char_len_median	0.480	0.067	−0.326	0.385	−0.025	0.125	0.000	0.703
word_len_mean	0.484	0.070	−0.315	0.379	0.000	0.112	0.007	−0.711
phrase_count_sum	0.173	−0.112	0.732	0.310	−0.485	0.285	0.101	−0.006
has_any_phrase_mean	0.376	0.011	0.482	0.094	0.622	−0.466	−0.114	0.019
is_modal_template_mean	0.320	0.410	0.109	−0.519	0.208	0.441	0.459	0.007
fund_centroid_cosine_median	0.133	0.678	0.061	−0.182	−0.368	−0.204	−0.556	−0.004
industry_centroid_cosine_median	−0.303	0.509	0.003	0.401	−0.057	−0.369	0.591	0.004
peer_cosine_mean_mean	−0.390	0.303	0.106	0.374	0.443	0.549	−0.329	−0.001
Eigenvalue	3.132	1.657	1.240	0.872	0.430	0.420	0.242	0.007
Proportion	0.392	0.207	0.155	0.109	0.054	0.053	0.030	0.001
Cumulative	0.392	0.599	0.754	0.863	0.916	0.969	0.999	1.000

- The first four components explain 86.3% of the variance; only the first three have eigenvalues above one
- PCA4 is retained because it is structurally separable: positive on length, strongly negative on template-absence. It isolates cells where a fund writes long rationales that still collapse onto a house template
- PCA1 loads on length and template-absence but negatively on peer and industry distinctiveness: high-quality rationales are long and non-templated, yet use standard professional vocabulary

back