Institutional Investor Engagement and Stewardship

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BETTER POLICIES FOR BETTER LIVES

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Foreword

Over the past decades, global capital markets have undergone a significant transformation. Large institutional investors now hold substantial stakes in listed companies across jurisdictions and cross-border ownership has become a defining feature in many markets. Concurrently, there has been a marked shift towards index-based investment strategies, driven by cost-efficiency considerations and enabled by technological advances.

The consolidation of voting power – where a small number of large institutional investors hold a significant proportion of voting rights in listed companies – raises important questions. If not properly governed, such concentration may present risks. At the same time, some institutional investors are under pressure to address environmental and social challenges through their investment decisions and stewardship practices including engagement and voting.

The *Institutional Investor Engagement and Stewardship* report examines how institutional investors engage with listed companies and how effective stewardship can strengthen the long-term efficiency and resilience of capital markets. It presents trends in institutional ownership and the asset management industry; reviews current engagement practices and mechanisms; and analyses stewardship-related regulatory frameworks, including fiduciary duties. Although the regulatory frameworks governing stewardship have evolved in many jurisdictions over the last decade, frameworks have not always kept pace with these challenges. This report highlights the need for enhanced international co-operation to identify and promote both voluntary and regulatory approaches that support effective stewardship.

This report has been developed by the Capital Markets and Financial Institutions Division of the OECD Directorate for Financial and Enterprise Affairs. It was prepared by Adriana De La Cruz and Hitesh Tank, with the support of Matthis Cadeau, under the supervision of Caio de Oliveira, Head of the Sustainable Finance and Corporate Governance Team, and Serdar Çelik, Head of Division. Inputs were provided by delegates at the OECD Working Party on Sustainable Finance's inaugural September 2025 meeting, the Corporate Governance Committee's Fall 2024 meeting and the Committee on Financial Markets' Spring 2024 meeting.

The report also reflects input received through a private consultation held in March 2025 with the following organisations and individuals: Brazil's Association of Capital Market Investors (AMEC) (Fabio Coelho), BlackRock (Amra Balic and Laetitia Boucquey), Climate Action 100+ and the Principles for Responsible Investment (PRI) (Jasna Selih and Junru Liu), Dr Tom Gosling (London School of Economics), Glass Lewis (Eric Shostal and Gordon Seymour), Institutional Investors Group on Climate Change (IIGCC) (Laith Cahill), Japanese Government Pension Fund (GPIF) (Hitoshi Hirokawa), Norges Bank Investment Management (NBIM) (Elisa Cencig), Professor Dorothy Lund (Columbia Law School), Professor Julian Franks (London Business School), UK Financial Conduct Authority (FCA) (Isabelle Lambert and Serena Espeute) and the UK Financial Reporting Council (FRC) (Dandi Wang and Olivia Mooney).

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Abbreviations and acronyms

ACCC	Australian Competition and Consumer Commission	ICGN	International Corporate Governance Network
ACM	Dutch Authority for Consumers and Markets	IFRS	International Financial Reporting Standards
ACSI	Australian Council of Superannuation Investors	IIGCC	Institutional Investors Group on Climate Change
AIGCC	Asia Investor Group on Climate Change	ISG	US Investor Stewardship Group
AMEC	Brazilian Association of Capital Market Investors	ISS	Institutional Shareholder Services
AMF	French Autorité des Marchés Financiers	ISSB	International Sustainability Standards Board
APRA	Australian Prudential Regulatory Authority	JFTC	Japan Fair Trade Commission
AUM	assets under management	NBIM	Norges Bank Investment Management
CEO	chief executive officer	NZIF	Net Zero Investment Framework
EFAMA	European Fund and Asset Management Association	OECD	Organisation for Economic Co-operation and Development
ESG	environmental, social and governance	PPRF	public pension reserve fund
ESMA	European Securities and Markets Authority	PRI	Principles for Responsible Investment
EU	European Union	SEC	US Securities and Exchange Commission
FCA	UK Financial Conduct Authority	SFDR	Sustainable Finance Disclosure Regulation
FRC	UK Financial Reporting Council	SRD II	Shareholder Rights Directive II
FSB	Financial Stability Board	SSIM	State Street Investment Management
FSC	Australian Financial Services Council	SWF	sovereign wealth fund
G20	Group of Twenty	TCFD	Taskforce on Climate-Related Financial Disclosure
GFANZ	Glasgow Financial Alliance for Net Zero	TNFD	Task Force on Nature-Related Financial Disclosures
GHG	greenhouse gases	UK	United Kingdom
GL	Glass Lewis	UN	United Nations
GPIF	Government Pension Investment Fund	US	United States
IAASB	International Auditing and Assurance Standards Board		

Executive summary

Institutional investors encompass a large variety of entities that manage and own assets. Asset owners are a group of institutional investors who may invest their assets directly or through asset managers. Asset managers manage assets on behalf of other entities and individuals. The concept of stewardship refers to the responsibilities of institutional investors in overseeing and engaging with companies in which they invest to enhance and preserve the value of investments on behalf of their clients and beneficiaries.

The current institutional investor landscape shows large institutions holding significant portions of capital in listed companies across markets. Asset managers alone hold more than 50% of the listed equity in the United States, the United Kingdom and Ireland and at least 20% of the listed equity in Brazil, India and South Africa. The largest 20 asset managers hold USD 56 trillion (38%) of assets globally.

In some smaller markets, such as Estonia, Lithuania, Luxembourg, Latvia and the Slovak Republic, the largest institutional investor in each company owns more than 70% of the institutional investor equity holdings on average. In more developed markets such as the United Kingdom and the United States, institutional ownership presents high concentration levels considering the largest 20 institutional investors in each company.

Non-domestic ownership is prominent in most markets. In almost 80% of OECD, G20 and Financial Stability Board (FSB) economies, the share held by domestic institutional investors is smaller than that held by their non-domestic counterparts. Notable exceptions include Argentina, the People's Republic of China (hereafter "China"), South Africa and the United States, where domestic institutional investors own larger equity shares than non-domestic ones. Most non-domestic institutional investor ownership is attributed to UK and US-domiciled investors. However, other non-domestic institutional investors also hold important positions across some markets. For instance, asset managers domiciled in France are significant investors in Belgium, Ireland, the Netherlands, and Spain.

To enhance performance while reducing costs, and supported by technological advances, there has been a shift among institutional investors towards the inclusion of index investment strategies within their portfolios. Globally, non-index managed investment funds total USD 38.3 trillion of assets under management, while index-linked funds account for USD 26.7 trillion. Active investors are directly involved in selecting which individual financial assets or categories of assets have an expected return that differs from the market expectations, aiming to generate profits by trading these assets. Index investors typically adopt an investment approach that involves high diversification and a low fee structure. Often, they aim to mirror broader market trends instead of outperforming them.

Investors focussing on the valuation of individual assets already have a "sunk cost" of analysing the business of the investee companies, and, therefore, voting and engaging with them may in some cases represent relatively low marginal costs. Conversely, for other active investors and all index investors, voting and engaging also includes the cost of researching the investee company to form a position when voting and engaging. This difference partially explains why there is a spectrum of well-informed stewardship on one side and no stewardship at all on the other, with a mid-point where some investors exercise their shareholder rights in line with proxy advisors' recommendations.

A possible way to assuage asset owners' concerns with respect to asset managers' stewardship could be to allow asset owners to have a say in how the shares they own in listed companies are voted even when those shares are held by their asset managers. While the so-called "pass-through voting" may empower sophisticated asset owners, less resourced asset owners may lack the expertise to engage with complex corporate governance and sustainability-related issues when exercising voting rights. Furthermore, the fragmentation of the voting bloc created by "pass-through voting" can dilute an asset manager's ability to present a unified voice in engagements with investee companies, possibly weakening the asset manager's influence over corporate behaviour and reducing its ability to hold management to account.

The exercise of a significant share of voting rights in many listed companies by a few institutional investors, which is increasingly the reality in some markets, may be a problem if this power is unchecked. The business model of index investors may lead them to prioritise engagement activities that are scalable and cost-efficient, making them particularly inclined to engage on visible issues that matter to their clients, but which are potentially at the expense of less visible engagement that is important for value maximisation.

An effective stewardship regulatory framework, which focusses on disclosure and the enforcement of the fiduciary duties of institutional investors, may limit the possibility of abuse of power while enhancing institutional investors' disciplinary function in capital markets. Stewardship regulatory frameworks vary across jurisdictions and typically comprise a mix of public and private requirements and recommendations. A soft law approach through stewardship codes has become especially important, with codes being set by public authorities (e.g. Japan and the United Kingdom) or by private sector organisations such as industry associations (e.g. Australia, Brazil, South Africa and the United States).

Conflicts of interest are an important issue to consider when examining the stewardship regulatory framework because they can undermine the trust and accountability required when institutional investors manage investments on behalf of others. Conflicts of interest can occur at multiple levels, for example, where a bank provides corporate finance advisory services such as capital raising but also owns an asset management subsidiary that buys and sells securities.

Any solid stewardship regulatory framework relies on a well-defined and effectively enforced fiduciary duty of institutional investors. This is because, given the complexities of capital markets, asset management mandates are inescapably incomplete, leaving a considerable level of discretion to asset managers. Fiduciary duty refers to an institutional investor's legal obligation to act in their clients' best interests, and these duties are especially important in the context of investor stewardship related to environmental and social matters. Fiduciary duties limit the possibility of institutional investors managing their clients' capital with the objective of achieving sustainability-related goals at the cost of risk-adjusted financial returns unless there is a clear mandate from their clients to do so.

There are, however, two significant questions that have remained unresolved in existing stewardship regulatory frameworks. First, how to mediate conflicts between the expectations and information needs of institutional investors and companies based in different jurisdictions. For instance, while institutional investors seek sustainability-related material information, they should ensure disclosure does not place unreasonable costs on companies. Second, what disclosure rules should apply to the largest institutional investors to ensure they fulfil their fiduciary duties, respond to their clients' sustainability concerns, and do not create economic inefficiencies. Considering these open questions, further co-operation in identifying good policies and practices for the development of voluntary and regulatory frameworks that foster effective stewardship could be beneficial.

1 Institutional investor landscape

This chapter presents an overview of the institutional investor landscape. It outlines the role and main types of institutional investors, including the distinction between active and index-based strategies. The chapter provides quantitative data on institutional investor ownership in public equity markets, covering the holdings of asset managers and asset owners, the concentration of ownership at the company level, cross-jurisdiction differences between domestic and foreign investors, and recent trends in assets under management among the largest asset manager firms. It also examines the structure of investment funds, including the relative shares of non-index and index-based management across asset classes, the jurisdictions in which funds are domiciled, and the growth of sustainable funds compared with traditional funds.

Institutional investors encompass a large variety of entities that manage and own assets. Asset owners are a group of institutional investors who may invest their assets directly and/or through asset managers. Asset owners include entities such as insurance companies, public and private pension funds, and sovereign wealth funds, among others. Asset managers manage assets on behalf of other entities and individuals. Depending on the regulatory context and their strategies, asset managers include investment advisors, hedge funds and private equity firms, among others.

Institutional investors' significance in today's capital markets makes them key contributors to capital market efficiency and integrity. They can enhance price discovery, streamline capital allocation and encourage discipline from companies' management and key executives.

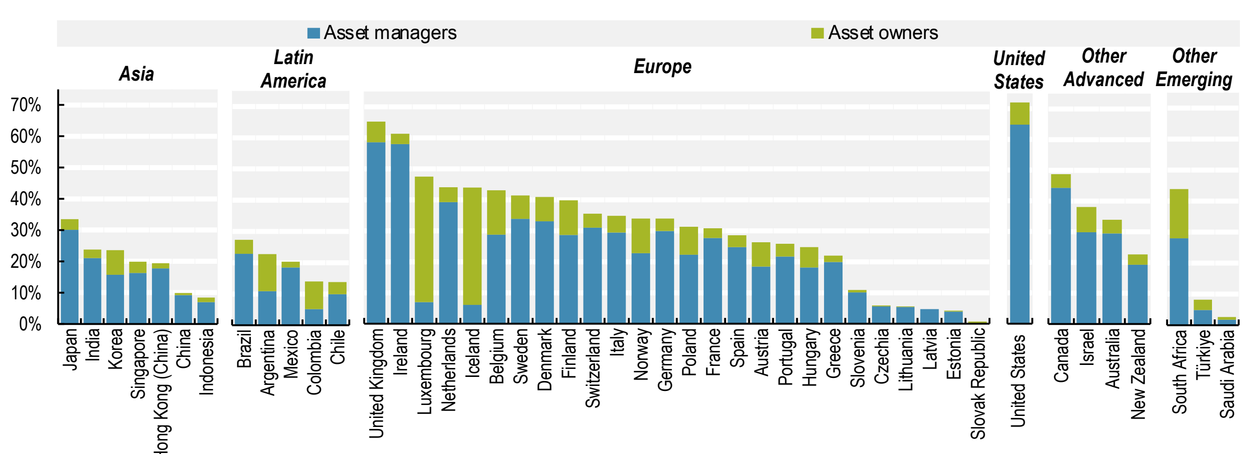
Institutional investors are distinguished from other types of investors in at least three ways. First, they have a larger scale than retail investors and, therefore, tend to have a more sophisticated investment decision-making process. Second, their scale and professionalisation may also allow them to extend their investment activities beyond domestic public markets, reaping the benefits of greater portfolio diversification. Third, unlike other large investors, such as holding companies and governments, institutional investors are typically more diversified and seldom own controlling equity stakes in companies.

The current institutional investor landscape shows large institutions holding significant portions of capital in listed companies across markets. At the same time, to enhance performance while reducing costs, and supported by technological advances, there has been a shift among institutional investors towards the inclusion of index investment strategies within their portfolios.

1.1. Importance of institutional investors

Over recent years, institutional investors have become crucial public equity owners in most advanced markets. As of 2024, asset managers hold 65% and 59% of the listed equity in the United States and the United Kingdom, respectively (Figure 1.1). They hold at least 30% of the listed equity in Canada, Denmark, Ireland, Japan, the Netherlands, Sweden and Switzerland. The increased ownership by asset managers is also visible in emerging markets such as South Africa (28%), Brazil (23%) and India (21%). Moreover, asset owner institutions hold 41% of the listed equity in Luxembourg, 38% in Iceland, and at least 10% in Argentina, Belgium, Finland, Norway and South Africa.

Figure 1.1. Public equity holdings of asset managers and asset owner institutions in 2024

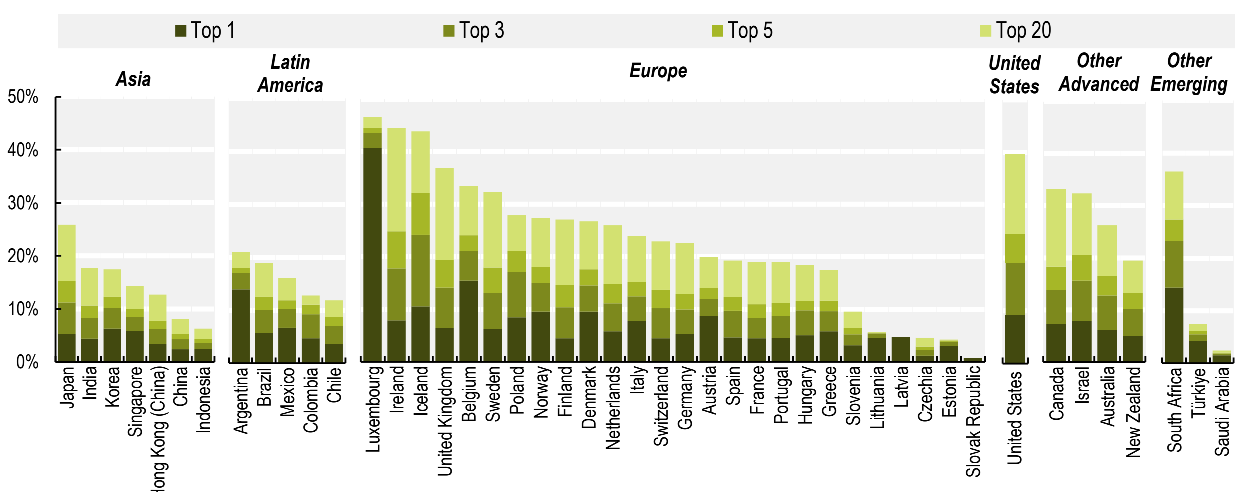


Note: The figure includes all OECD, G20 and FSB members, except Costa Rica and the Russian Federation (hereafter "Russia").
Source: OECD Capital Market Series dataset, FactSet, LSEG, Bloomberg.

Institutional investor ownership is characterised by a high level of concentration, although the degree varies across markets. In smaller markets, such as Estonia, Latvia, Lithuania, Luxembourg and the Slovak Republic, the largest institutional investor in each company owns more than 70% of the institutional investor equity holdings on average (Figure 1.2). In more developed markets such as the United Kingdom and the United States, institutional ownership presents high concentration levels considering the largest 20 institutional investors in each company. Similarly, while in Canada the largest institutional investor holds 7% of the equity on average (15% of the total institutional investor holdings), the largest 20 institutional investors own 33% of the equity holdings (68% of the total institutional investor holdings).

The trend of institutional investors becoming larger public equity owners over recent years raises important questions about the effectiveness of their engagement with listed companies because of the differing levels of equity ownership concentration across markets. In markets such as the United Kingdom and the United States, where several institutional investors are large public equity owners (Figure 1.1), they may have greater leverage and more financial incentive to influence corporate governance, strategy and sustainability practices at investee companies. In markets where institutional investor equity ownership is relatively low, there may be barriers to engagement between institutional investors and listed companies, for example, due to the presence of the public sector as a shareholder. This may result in institutional investors having less leverage to influence company decision-making.

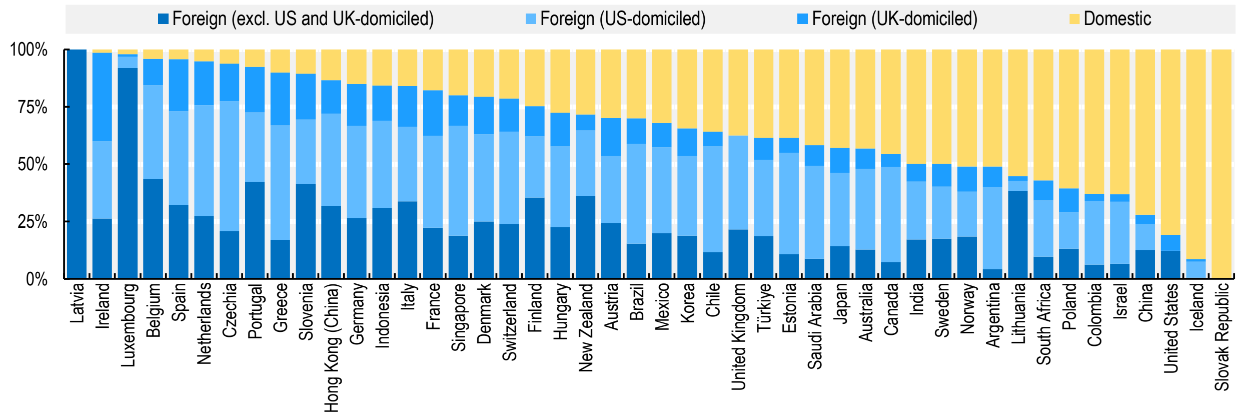
Figure 1.2. Institutional investor ownership concentration at the company level in 2024



Source: OECD Capital Market Series dataset, FactSet, LSEG, Bloomberg.

Non-domestic ownership is prominent in most markets. In 76% of OECD, G20 and FSB economies, the share held by domestic institutional investors is smaller than the share held by their non-domestic counterparts. Notable exceptions include Argentina, China, South Africa and the United States, where domestic institutional investors own larger equity shares than non-domestic ones (Figure 1.3). Most non-domestic institutional investor ownership is attributed to UK and US-domiciled investors. However, other non-domestic institutional investors also hold important positions across some markets. For instance, asset managers domiciled in France are significant investors in Belgium, Ireland, the Netherlands, and Spain. The same holds true for Germany-domiciled asset managers who hold large stakes in Latvia, and for asset managers domiciled in Hong Kong (China) holding major stakes in China. Among asset owner institutions, a noteworthy example is Norway's Sovereign Wealth Fund, which holds meaningful equity stakes in approximately 70 markets outside of Norway (NBIM, 2025[1]).

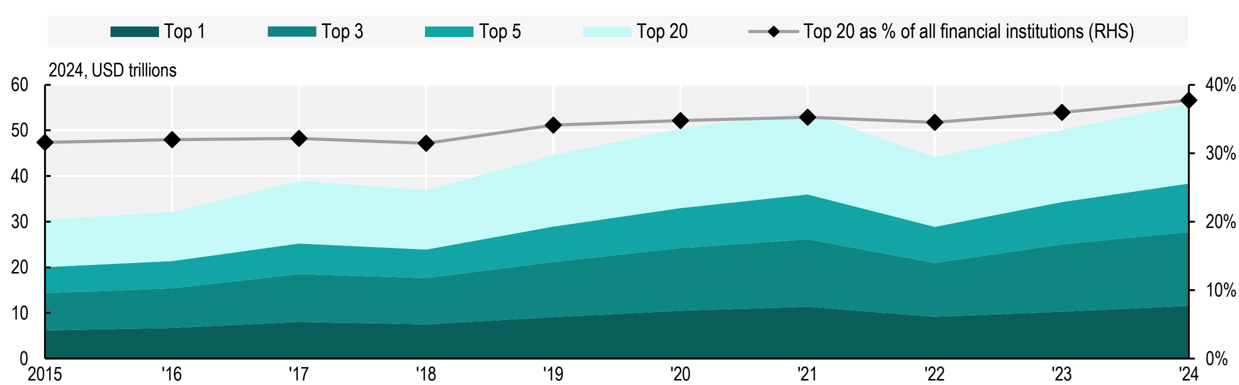
Figure 1.3. Domestic and non-domestic institutional ownership in 2024



Source: OECD Capital Market Series dataset, FactSet, LSEG, Bloomberg.

Institutional investor ownership in public equity markets shows significant concentration. This trend is mirrored in the assets under management (AUM) of the world's largest asset managers, regardless of the asset class involved. Over the last decade, the AUM of the largest 20 asset managers (for which data is available) have increased 84%, rising from USD 30 trillion in 2015 to USD 56 trillion in 2024 (Figure 1.4). In 2015, the AUM of the top 20 asset managers accounted for 32% of the AUM of all financial institutions; in 2024, this share rose to 38%.

Figure 1.4. Assets under management of the largest 20 asset managers



Source: Bloomberg, LSEG, OECD calculations.

1.2. Typical investment strategies

Active investors are directly involved in selecting which individual financial assets or categories of assets have an expected return that differs from the market expectations, aiming to generate profits by buying, holding and selling these assets. Index investors typically adopt an investment approach that involves high diversification and a low fee structure. Often, they aim to mirror broader market trends instead of outperforming them. Index investors, who cannot divest from individual holdings, strive to select the optimal portfolio based primarily on publicly available market prices and a predefined index. The broader categories of "active" and "index" investors, however, hide several different strategies and business models, including with respect to levels of diversification, analysis of a company's fundamentals, investment horizons and willingness to engage with investee companies (Table 1.1).

Table 1.1. Investment strategies

	Active investors	Index investors
Portfolio diversification	Less diversified if a greater focus on mispriced assets is adopted (e.g. hedge funds) ↕ More diversified if operating on a large scale or marketing to retail investors (e.g. mutual funds)	Typically highly diversified
Analysis of a company's fundamentals	Investors focussing on the valuation of individual assets ↕ Investors focussing on macroeconomic trends or other strategies (e.g. high-frequency traders)	No technical analysis by definition
Investment horizon	Varying time horizons depending on contractual obligations (e.g. open-end funds would tend to have a shorter investment horizon than pension funds), strategies (e.g. private equity funds make investments with multi-year holding periods) and market pressure (e.g. less sophisticated clients withdrawing funds during downturns may force institutional investors to think more on a short-term basis)	Long-term holding periods with more significant changes during market instability
Engagement and voting	Well-informed stewardship ↕ No engagement and voting based on proxy advice ↕ Neither engagement nor voting	

"Active investors" are a highly heterogeneous group of investors. For instance, they may include private equity funds with very low diversification, decisions based on time horizons extending over several years and engagement that possibly includes the participation of private equity executives on the board of investee companies. At the other extreme, active investors include high-frequency traders with low diversification, no analysis of companies' fundamentals, an investment horizon of less than one second and, evidently, no engagement with investee companies.

Hedge funds are active investors located between the two abovementioned extremes, performing a key role in monitoring and engaging with listed companies. Hedge funds undertake activism by using their minority stakes, engagement and voting to pressure management at investee companies to change their corporate policies and governance to improve financial performance (Brav, Jiang and Li, 2021[2]). Even the possibility of being targeted by hedge funds for engagement may already make companies improve their governance and business (Gantchev, Gredil and Jotikasthira, 2019[3]). Hedge funds often rely on support from other institutional investors to drive change and boost returns (Becht et al., 2017[4]). In 2021, the hedge fund Engine Number 1, with less than a 0.02% stake in Exxon Mobil, won a proxy fight, securing three board seats. This success came from persuading large institutional investors, including index funds and pension funds, to back its nominees (Kaufmann, Kulatilaka and Mittelman, 2023[5]).

"Index investors" embark on a relatively more straight-forward category of investors committed to maintaining a portfolio replicating a predefined index where portfolio adjustments occur automatically in response to index composition and price changes (Çelik and Isaksson, 2014[6]). The level of diversification will depend on the composition of the index, but the most used indexes are large-capitalisation benchmarks with many companies.

Importantly for the scope of this report, whether the institutional investor votes and engages with investee companies may be seen, in some cases, as an optional service proposed by the institutional investor. Clearly, investors focussing on the valuation of individual assets already have a "sunk cost" of analysing the business of the investee companies, and, therefore, voting and engaging with them may in some cases represent relatively low marginal costs to meet companies and attend shareholder or bondholder meetings. Conversely, for other active investors and all index investors, voting and engaging also includes the cost of researching the investee company to form a position when voting and engaging.

In addition to being optional, the “service” of voting and engaging is not homogeneous. There is a spectrum of well-informed stewardship on one side and no stewardship at all on the other, but notably, there is also the possibility of exercising shareholder rights in line with proxy advisors’ recommendations. In relation to this mid-point, there are two specific issues to consider. First, as explored more in detail below in this report, proxy advisors themselves may engage with companies before providing their advice on how investors may prefer to vote and, therefore, proxy advisors may be seen in some cases as “de facto” representatives of some institutional investors (at least those that follow more closely the recommendations of proxy advisors based on benchmark policies). Second, and that is why double arrows are used in the last row of Table 1.1 above, institutional investors may rely more or less critically on the advice received from proxy advisors (institutional investors who rely more on their own assessment and policies would be closer to the extreme of “well-informed stewardship”).

Some institutional investors may use engagement providers to undertake engagement on their behalf with listed companies. The services engagement providers offer can vary; however, for the purpose of this report, they are broadly defined as an entity appointed to engage with listed companies on behalf of institutional investors (PRI, 2021[7]). Institutional investors may use engagement providers to bring greater expertise (particularly on sustainability-related risks and opportunities) and limit costs associated with engagements.

Institutional investors using engagement providers raises some challenges, the most significant being the risk of misaligned incentives because of compensation structures. Common compensation structures for engagement providers include volume and subscription-based fees. Volume-based engagement refers to the number of engagements undertaken with investee companies. Subscription fees are where institutional investors pay a regular fixed fee to access a range of engagement-type services. In either case, engagement providers may have the incentive to focus on light touch or superficial engagement with companies rather than well-informed engagement which can be time and resource intensive.

Similarly, the compensation of institutional investors, particularly asset managers, is typically structured depending on whether they are active or index investors, which will affect their incentives when engaging with investee companies. Active investors typically receive significant remuneration if they can perform better than the relevant benchmark, which gives them a dual incentive to wisely select securities and engage effectively with investee companies. The decision on whether to engage will be more due to the costs of engaging and the possibility of being effective, such as the existence of a controlling shareholder or a receptive board. While some index investors maintain a policy for engagement, the benefit for index investors to engage is less obvious. Their AUM will indeed be higher if they engage effectively with their major investee companies, slightly increasing the related fixed fees they receive, but given index investors are highly diversified, any benefits would not be meaningful.

Some asset owners have tried to find a solution to the abovementioned challenge. For example, the Government Pension Investment Fund (GPIF) in Japan experimented with remuneration structures for several of their index asset managers to incentivise greater engagement with Japanese listed companies to achieve sustainable growth of the overall market through stewardship activities (GPIF, 2024[8]). When index asset managers were awarded an additional mandate and fee structure to engage, in addition to investing and managing equity investments, there were improvements in some of the Environmental, Social and Governance (ESG) scores for Japanese listed companies (Becht et al., 2023[9]; Financial Times, 2023[10]).

1.3. State of investment fund markets

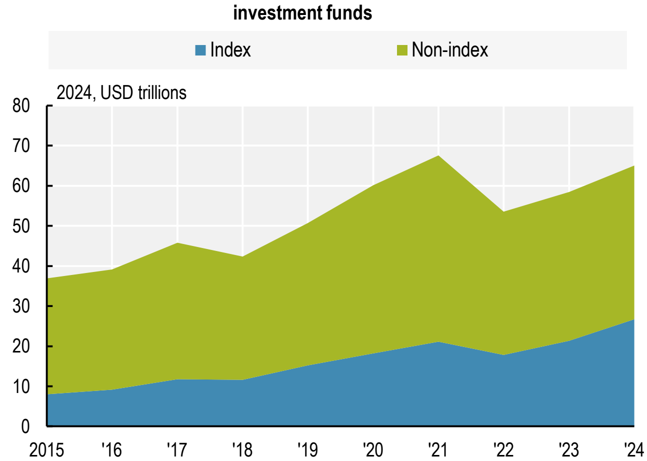
The rapid expansion of investment funds, particularly after the global financial crisis, has been led by factors such as a retraction in bank financing, changes in regulatory frameworks, technological advancements and a prolonged low-interest rate environment (Singh and Surti, 2021[11]). In 2024, the managed assets of investment funds, including open-end and exchange-traded funds, amounted to USD 65 trillion, a 76% increase from USD 37 trillion in 2015.

Today, index investment strategies, which account for USD 26.7 trillion of assets under management, concentrate the bulk of their investments in equity, which totals almost 80% of the assets under management, and in fixed income with 18%. While in 2015 non-index funds were 3.6 times larger than index-linked investment funds, in 2024 this ratio stood at 1.4.

Non-index investment funds total USD 38.3 trillion of the total AUM within the investment fund sector (Figure 1.5, Panel A). Non-index funds allocate almost 40% of their assets to equity investments, followed by fixed-income securities (37%) and multi-asset allocation (20%) (Figure 1.5, Panel B).

Figure 1.5. Investment funds' assets under management

A. Index and non-index investment funds



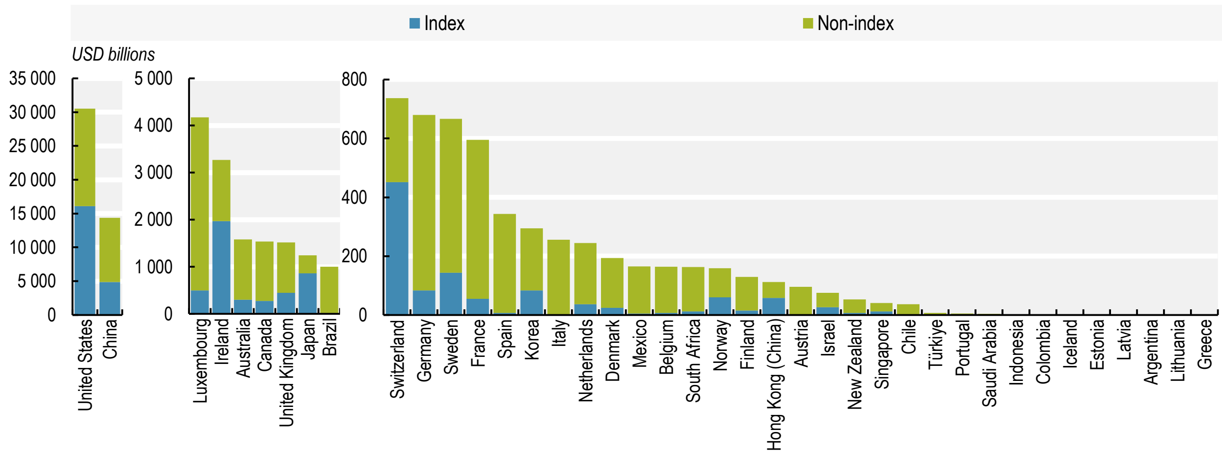
B. Distribution among asset classes under management in 2024

	Index	Non-index
Equity	78.7%	39.7%
Fixed Income	18.3%	36.7%
Multi-allocation	0.3%	20.0%
Others	1.3%	2.3%
Alternative	0.0%	1.0%
Commodities	1.4%	0.2%
Money Market	0.0%	0.1%
Total	**100%**	**100%**

Source: Morningstar Direct, OECD calculations.

Nearly half of the investment funds are domiciled in the United States, collectively managing USD 30.5 trillion in assets. Within these US-domiciled funds, 47% are non-index funds, while 53% adopt an index investment approach (Figure 1.6). Following the United States, investment funds domiciled in China, Luxembourg, and Ireland manage assets ranging from USD 3.3 trillion to USD 14.4 trillion in each market. However, the investment strategies of these funds differ from those of US-domiciled investment funds. For instance, in Luxembourg, 88% of the funds are non-index funds and, in Ireland, this share stands at 40%.

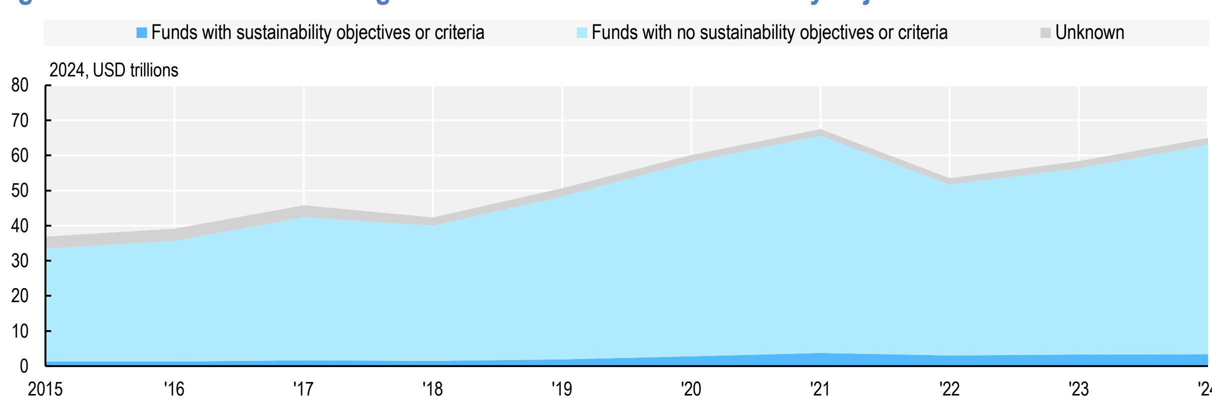
Figure 1.6. Investment funds' assets under management in 2024, by domicile



Note: The figure includes all OECD, G20, and FSB members, except Costa Rica, Czechia, Greece, Hungary, India, Poland, the Slovak Republic, Slovenia and Russia.
Source: Morningstar Direct, OECD calculations.

When looking at the evolution of the assets under management of funds with sustainability objectives or criteria over the past decade, two periods appear, with a higher average in post-2020 years (oscillating between USD 2.7 and USD 3.7 trillion) than in years prior (fluctuating between USD 1.3 and USD 1.9 trillion). Yet, that rise has been slowing in recent years: these funds had USD 3.4 trillion worth of AUM at the end of 2024, slightly below the 2021 peak. In addition, when looking at funds with sustainability objectives or criteria as a share of all funds in terms of AUM, the progression has been modest throughout the decade, rising from 3.4% in 2015 to 5.2% in 2024 (Figure 1.7).

Figure 1.7. Assets under management for funds with sustainability objectives or criteria



Note: Funds with sustainability objectives or criteria here refer to funds considered to be sustainable investment products. A fund will be considered a sustainable investment product if in the prospectus or other regulatory filings it is described as focussing on sustainability, impact investing, or environmental, social or governance factors. Funds must claim to have a sustainability objective, and/or use binding ESG criteria for their investment selection. Funds that employ only limited exclusions or only consider ESG factors in a non-binding way are not considered to be sustainable investment products.
Source: Morningstar Direct, OECD calculations.

2 Practical aspects of institutional investor engagement

This chapter analyses how institutional investors engage with investee companies, the main forms of engagement, and how its effectiveness can be assessed. It examines information asymmetries between asset owners and asset managers, and how asset owners may seek greater influence over stewardship through tools such as pass-through voting and twin-track models. The chapter reviews collaborative investor initiatives on sustainability and related antitrust concerns, compares engagement policies and voting practices across leading investors, considers how companies respond and disclose their own engagement policies, and explores how institutional investors' expanding voting rights may shape market standards.

There are critical issues for policymakers and financial sector regulators to examine when seeking to develop a regulatory framework conducive to effective engagement. This includes a consideration of the forms of investor engagement, engagement policies developed by institutional investors and institutional mechanisms to facilitate engagement.

2.1. Forms of investor engagement

Institutional investors have adopted different engagement practices to suit their preferences and those of their clients. For example, they may decide to opt for either a "topic-based" or a "corporate-based" engagement style.

"Corporate-based" engagement focusses on influencing practices on specific issues at an investee company. It involves institutional investors tailoring engagement efforts to address company-specific risks or opportunities. Institutional investors may analyse individual companies' financial performance, sustainability practices or corporate governance structures to identify the best approach to conduct engagement activities. A "corporate-based" approach tends to be more appealing to institutional investors who analyse investee companies' fundamentals in their decision-making process because they are well-positioned to assess where the business or its corporate governance could be improved (PRI, 2018[12]).

"Topic-based" engagement involves focussing on thematic issues or topics, such as climate change, across a range of companies. This allows institutional investors to address broader sources of systemic risks or opportunities, contributing to changes at a broader industry level. Notably, a "topic-based" approach is less costly for index investors who would need to invest resources in researching and analysing the businesses of individual companies in a "corporate-based" engagement (PRI, 2018[12]).

The key risk of topic-based engagement is that, in addition to not being well-suited for the specific circumstance of a company, the engagement topic may have been chosen to please an index investor's clients while not necessarily being financially material for the investment portfolio. Moreover, some institutional investors may perform topic-based engagement to signal they are good stewards without the necessary expertise or investing sufficient resources to provide guidance that is effectively helpful for them or controlling shareholders.

An evolving approach some institutional investors are adopting is the concept of "macro stewardship" (also known as "systemic stewardship"), which focusses on addressing systemic issues such as climate change that can affect the stability and long-term performance of financial markets as a whole (Aviva Investors, 2022[13]). While traditional stewardship approaches involve bilateral engagement with individual investee companies, macro stewardship advocates institutional investors engaging with governments and policymakers to correct market failures related to sustainability issues (Financial Times, 2023[10]).

Institutional investors may decide to advance their engagement individually, by engaging directly with investee companies, or collaboratively, by interacting with other investors. In some cases, engagements can also be a mix of individual and collaborative forms, where one or two institutional investors take the lead when engaging with the company. In recent years, investor coalitions with a particular focus on environmental issues have arisen (Section 2.2).

Engagement actions can be carried out privately, involving direct interactions with the investee companies, for example, through letters or meetings with members of the board of directors or management. This approach enables institutional investors to begin with private engagement and escalate to public actions, like issuing statements or submitting proposals at shareholder meetings, if private dialogue is unsuccessful.

Institutional investors frequently engage with investee companies in private meetings although the timing and content of which are often undisclosed. Examination of the effect of such meetings between an active asset manager and its investee companies showed that private engagement meetings increased trading and were associated with profitable decisions by the manager (Becht, Franks and Wagner, 2021[14]).

Whereas measuring private engagement actions is challenging, considerably more information is available on public engagement. Notably, shareholder resolutions are often viewed as an escalatory tool, typically used when private engagement has not yielded the desired results for institutional investors. Figure 2.1 takes account of the 2024 annual shareholder meeting details of large listed companies (constituents of the MSCI World Index) in selected jurisdictions. It shows the origin of the proposals (i.e. introduced by management or shareholders) and their outcomes, such as approval, failure or absence of vote.

Overall, management-initiated proposals are more frequent and tend to be approved, whereas shareholder-initiated proposals are comparatively rare and more often either fail or are not voted on. This pattern is consistent across the 13 selected jurisdictions, although the regulatory requirements within each jurisdiction may differ. For instance, in Canada’s 2024 annual meetings, almost 170 management proposals were approved and one failed, against six approved shareholder proposal and 89 failed proposals (Figure 2.1).

Regarding the average number of management proposals per company, this number is highest in Sweden (28 proposals) and in Germany (25 proposals) and averages 2 proposals in Canada and 3 proposals in the United States and Japan. In the case of Germany, the number of proposals takes account of the ratification by the shareholders of each supervisory board member’s actions during the past fiscal year, which may explain the comparatively high average. Meanwhile, Canada, Norway and the United States are the only countries where shareholder proposals average more than one per company, with Australia and Sweden lower at 0.4 proposals, and negligible numbers in other analysed markets.

However, using annual shareholder meetings as a proxy for measuring the success of engagement with investee companies may not provide a comprehensive view of engagement outcomes. Management-led resolutions at these meetings typically focus on routine corporate governance matters, such as director re-elections and executive compensation, which usually receive majority shareholder support. In some jurisdictions, regulatory requirements or corporate structures, such as two-tiered board structures, may increase the number of management resolutions, particularly those related to board appointments. Furthermore, filing shareholder resolutions may be relatively straightforward in some jurisdictions, leading to a higher number of proposals during the proxy season, while other jurisdictions impose higher thresholds that limit their inclusion on company ballots. Likewise, where shareholder decisions are not binding, there may not be enough incentives for shareholders to make the proposals in the first place.

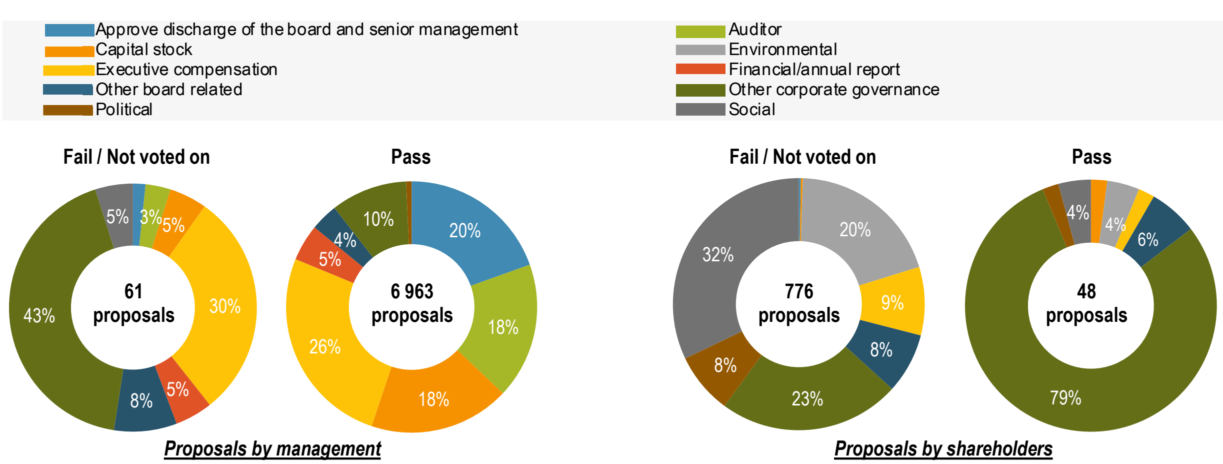
Figure 2.1. Annual shareholder meeting proposals in large listed companies, 2024

	Proposals by management			*Proposals by shareholders*		
	Fail/Not voted on	**Pass**	**Avg. no. of proposals per company**	**Fail/Not voted on**	**Pass**	**Avg. no. of proposals per company**
United States	23	1 481	3	629	35	1.3
Germany	4	1 223	25	9	0	0.2
France	2	1 105	21	1	0	0.0
Sweden	21	758	28	5	5	0.4
United Kingdom	2	753	12	2	0	0.0
Switzerland	0	472	14	3	2	0.1
Japan	0	306	3	10	0	0.1
Netherlands	0	259	11	0	0	0.0
Canada	1	167	2	89	6	1.3
Australia	6	151	4	15	0	0.4
Norway	0	140	14	13	0	1.3
Belgium	2	81	8	0	0	0.0
Denmark	0	67	10	0	0	0.0
Total	**61**	**6 963**	**12**	**776**	**48**	**0.4**

Note: The figure displays the available annual shareholder meeting details of 1 017 large listed companies (companies that are MSCI World Index constituents as of June 2025) in Australia (41 covered companies out of 48 companies in the index), Belgium (10 out of 10), Canada (72 out of 74), Denmark (7 out of 13), France (54 out of 57) Germany (50 out of 60), Japan (91 out of 182), the Netherlands (24 out of 26), Norway (10 out of 11), Sweden (28 out of 41), Switzerland (34 out of 40) the United Kingdom (65 out of 79) and the United States (531 out of 562). The markets where coverage was below 50% of companies or fewer than 5 companies in the MSCI World Index are not displayed. The darker colour shading of each column reflects the more frequent proposals by management or shareholders.
Source: FactSet; MSCI (2025[15]), MSCI Constituents, https://www-cdn.msci.com/web/msci/index-tools/constituents; OECD calculations.

Within the approved management proposals during the annual shareholder meeting, executive compensation issues represent 26% of the total, followed by the approval of discharge of the board and senior management (20%), auditor-related issues (18%), and capital stock issues (18%) (Figure 2.2). From the shareholders' side, 79% of the 48 proposals that were approved involved corporate governance issues, followed by 6% on other board-related issues, and 4% on environmental and social issues each. When analysing the 776 shareholder proposals that either failed or were not voted on, 32% and 20% of them focussed on social and environmental issues, respectively.

Figure 2.2. Main topics in annual shareholder meeting proposals, 2024



Source: FactSet; MSCI (2025[15]), MSCI Constituents, https://www-cdn.msci.com/web/msci/index-tools/constituents; OECD calculations.

2.1.1. Clients' say on stewardship

Asset owners can enlist asset managers to conduct their investment activities. In turn, asset managers are responsible for delivering returns, ensuring they act as stewards of investee companies, and aligning their investment decisions with the asset owners' interests and objectives, as outlined in their mandates and while upholding their fiduciary duties (Section 3.4). Asset managers are thus primarily responsible for executing stewardship, while asset owners are tasked with specifying how their assets should be managed. However, this separation of roles may not always be evident, particularly when large asset owners establish their own in-house asset management divisions or when an asset manager fully or partially outsources stewardship responsibilities (The Investment Association, 2018[16]).

There can be information asymmetry between asset owners and asset managers in relation to the delivery of stewardship services. One way to reduce this asymmetry is when asset managers publish engagement and voting policies that provide an indication of how they will approach common corporate governance and sustainability-related issues at investee companies (Section 2.3). Another way to reduce asymmetry is for asset managers to report detailed outcomes of the engagements they perform publicly or privately to their clients. A third way to reduce the asymmetry is to allow "pass-through voting".

Pass-through voting is a mechanism that allows asset owners, and in some circumstances retail investors, to have a say in how the shares they own in listed companies are voted even when those shares are held by their asset managers (Gurrieri and Callan, 2024[17]). Pass-through voting gives asset owners the ability to instruct their asset managers how to vote the underlying shares including in pooled funds, in a similar way as asset owners already had the ability to determine voting decisions in segregated mandates.

Although the specifics can vary, typically pass-through voting in the context of asset owners and asset managers may involve providing the former with a range of voting polices that are then applied or asset owners may be able to vote directly. Based on the asset owners' preferences, the asset manager then executes votes based on these instructions. Systems have been developed to facilitate this voting process electronically, so that asset owners can vote when it suits them or set preferences to vote for or against certain proposal types. The asset owner's vote can guide the asset manager's decision, either applied proportionally or as a non-binding poll to gauge investor preferences (Gurrieri and Callan, 2024[17]).

While pass-through voting may empower sophisticated asset owners, less resourced asset owners may lack the expertise to engage with complex corporate governance and sustainability-related issues when exercising voting rights. When voting is fragmented among asset owners using pass-through voting, cohesive voting strategies may weaken, potentially reducing the influence and effectiveness of the voting bloc compared to centralised decision making by the asset manager. This fragmentation can also dilute an asset manager's ability to present a unified voice in engagements with investee companies (Stewart, 2023[18]), possibly weakening their influence over corporate behaviour and reducing their ability to hold management to account through voting decisions as a disciplining mechanism.

Some of the largest index asset managers are introducing "twin-track stewardship" services (Responsible Investor, 2024[19]). In February 2024, BlackRock announced a new climate-focussed stewardship option for clients who have decarbonisation objectives (BlackRock, 2024[20]). Similarly, State Street Global Advisers (SSGA), now State Street Investment Management (SSIM), launched a new sustainability-focussed stewardship offering for clients who want to drive sustainability outcomes (SSGA, 2024[21]).

Institutional investors remain the largest group of investors globally, holding 47% of total equity at the end of 2024. However, the public sector also plays a significant role, accounting for 10% of total equity holdings (OECD, 2025[22]). The public sector broadly comprises governments as ultimate owners at both national and local levels, public pension funds regulated under public law and sovereign wealth funds (SWFs) (OECD, 2025[22]). Although this report focusses on institutional investors and their stewardship practices, the public sector is included in the analysis below given its importance as an owner and an investor in public equity and debt markets. The report primarily focusses on listed equity stewardship and, in some cases, public debt investments. While public sector entities may also invest and exercise stewardship in other asset classes, these are outside the scope of the analysis.

There is a degree of commonality in how public sector investors exercise stewardship, depending on their approach to public equity and debt investment – similar to traditional institutional investors (Section 2.1.1). However, there can be nuances in how different public sector entities may exercise stewardship as investors reflecting their specific mandates and responsibilities (Box 2.1).

Box 2.1. Public sector stewardship practices

Governments as investors

National and local governments can be investors in public equity markets. While there are some similarities in how they exercise stewardship as described in Section 2.1.1, important differences exist. Government ownership structures may take various forms, including direct ownership through government institutions, state-owned holding companies or indirectly through SWFs, public pension reserve funds or other types of investment vehicles (OECD, 2024[23]).

The rationale for government investment in public equity may also differ from that of traditional institutional investors. In addition to seeking long-term value creation, governments may pursue broader public policy goals – for example, maintaining national control over industries key for national security or supporting the transition to a low-carbon economy (OECD, 2024[23]).

Public pension reserve funds

Public pension reserve funds (PPRFs) are reserves or buffers to support otherwise pay-as-you-go financed public pension systems (OECD, 2022[24]). Historically, stewardship was considered by PPRFs only where it affected portfolio risks. However, stewardship has now become a central part of how PPRFs manage listed equity investments, reflecting the view that it enhances both value creation and risk management.

In addition to exercising stewardship as described in Section 2.1.1, PPRFs may collaborate through investor networks to promote responsible corporate behaviour and align portfolios with long-term sustainability goals.

Sovereign wealth funds

SWFs are pools of assets owned and managed directly or indirectly by governments to achieve national objectives. They are typically financed by foreign exchange reserves, proceeds from the sale of natural resources such as oil or general tax and other revenues. SWFs often pursue multiple and sometimes overlapping goals, such as diversifying national assets, enhancing returns on reserves, funding future pensions, saving for future generations, stabilising prices, supporting industrialisation and advancing strategic interests (OECD, 2008[25]).

While typically focussed on capital preservation and financial returns, some SWFs have gradually begun to incorporate environmental and social considerations into their strategies. In public equity holdings, they may exercise stewardship as more traditional investors. As government-owned investors, their mandates – set by the state shareholders – determines how stewardship is undertaken.

2.2. Alliances for sustainability-related engagement

There are various market initiatives and alliances that support investor engagement on sustainability, ranging from the codes described in Section 3.3 to investor alliances below. Some of these predominantly industry-led private initiatives were established over two decades ago and others have arisen more recently, all with a focus on improving institutional investors' action to mitigate the impacts of climate change.

Climate Action 100+ is an investor-led initiative that was launched in 2017 and aims to "ensure the world's largest corporate GHG emitters take necessary action on climate change." It is the largest investor engagement initiative on climate change, with approximately 600 global investors across over 30 markets. The focus is shareholder engagement with specific companies that are key to driving the global net-zero emissions transition, including 168 focus companies selected according to their GHG emissions for engagement. A key focus of the initiative is on investment stewardship by investors who hold shares in those companies, which includes direct engagement with public companies that aims to "achieve corporate practice consistent with long-term value protection and creation" (Climate Action 100+, 2024[26]).

As part of the Phase 2 of the initiative, Climate Action 100+ has introduced thematic engagements supported by co-ordinated networks. In this context, in 2024 and 2025, the PRI and the Asia Investor Group on Climate Change (AIGCC) are collaborating to focus on engagement with state-owned enterprises in Asia. In the United States, CERES will support climate accounting engagements with oil and gas companies, work with regulators and standard setters, and lead Just Transition efforts in North America's electric power and transportation sectors, focussing on net-zero science-based targets. In Europe, the Institutional Investors Group on Climate Change (IIGCC) will focus on climate accounting and climate lobbying thematic engagements with European companies. Other thematic issues, which will be a focus for engagement across geographies include methane measurement, reporting and abatement, executive remuneration, board competency and capital allocation (Climate Action 100+, 2025[27]).

However, the shift to the Phase 2 may have resulted – among other possible reasons – in some large asset managers leaving or scaling back their participation in the initiative, citing concerns that this impedes an "independent approach to proxy voting and portfolio company engagement" (Financial Times, 2024[28]). In response, Climate Action 100+ clarified that the transition from Phase 1 to Phase 2 remains consistent in its core purpose: ensuring the world's largest corporate greenhouse gas emitters take necessary climate action. Climate Action 100+ also stated that all participating investors act independently, making their own investment and voting decisions based on their best interests (Climate Action 100+, 2024[29]).

The **Institutional Investors Group on Climate Change (IIGCC)** was established in 2001 with the initial aim of providing a forum for collaboration between pension funds and asset managers on climate change issues and brings the investment community together to work towards a net zero and climate resilient future. Its membership comprises asset owners and managers, including many large global and European institutional investors (over 400 members from 27 countries) (IIGCC, 2024[30]). The IIGCC has developed several key initiatives and resources. For instance, the **Net Zero Investment Framework (NZIF)**, which was originally released in 2021 and updated with NZIF 2.0, is used as a guide by investors that have set voluntary net-zero commitments (IIGCC, 2024[31]). The framework aims to assist them with their methodology to set targets and construct net-zero strategies and transition plans (IIGCC, 2023[32]). In addition, the **Net Zero Engagement Initiative** was subsequently launched in 2023 by the IIGCC. It was established to concentrate on companies beyond the focus of the Climate Action 100+. The aim of the initiative is to assist investors to align more of their portfolio with the goals of the Paris Agreement (IIGCC, 2023[33]).

In 2021, the UN-convened **Glasgow Financial Alliance for Net Zero** (GFANZ) was launched as a coalition of eight financial alliances and initiatives (representing over 675 financial institutions and firms from around 50 countries), and non-member private and public sector organisations. GFANZ was committed to accelerating the decarbonisation of the economy by developing tools and methodologies to assist financial institutions to implement their net-zero commitments (GFANZ, 2024[34]). In 2025, it was announced GFANZ would "transition to an Independent Principals Group, led by CEOs and leaders from financial institutions acting to address barriers facing in mobilising capital for the transition around the word" (GFANZ, 2025[35]).

The growing emphasis on sustainability-related matters in stewardship has increased the strategic importance of the relationship between asset owners and asset managers, particularly for those who seek to strengthen climate risk management in their investment portfolios (UN-Convened Net-Zero Asset Owner Alliance, 2023[36]). In this context, the **United Nations (UN)-Convened Net-Zero Asset Owner Alliance**, whose membership encompasses 89 asset owners with total assets under management of USD 9.5 trillion, has recently set four key principles to create a foundation for asset owner expectations of asset managers in terms of climate-related engagement. These principles call for an enhanced dialogue between owners and managers aiming at fostering confidence, transparency and authenticity, focussing on "common stewardship expectations and on the most value-added outputs of asset managers' engagement programs".

2.2.1. Competition and antitrust considerations

While collaboration between institutional investors on sustainability issues at investee companies may be important to change or influence companies' strategies where it is in line with enhancing and/or preserving the value of investments, competition law concerns should be considered. A potential conflict between initiatives to meet sustainability goals and antitrust rules may arise. While sustainability issues should not be used to engage in anticompetitive conduct, competition agencies would not be advised to impede any private activity aimed at reducing or internalising negative externalities (OECD, 2020[37]). As such, the frontier between co-ordinating engagement to improve a company's sustainability-related strategy and acting in concert in the context of competition and takeover rules is still being explored and typically varies depending on the jurisdiction and context.

As outlined in work conducted by the OECD, given the importance of sustainability in jurisdictions' agendas globally, competition authorities may consider adjusting their approach and analytical tools when considering competition assessments in relation to sustainability benefits. For instance, competition authorities may integrate economic and non-economic environmental effects into their existing framework for competition assessments. OECD research concludes that "[i]n their assessment of conduct and transactions with an impact on environmental protection, competition authorities will have to consider carefully the companies' economic incentives, as well as supply-side and demand-side markets failures, such as coordination problems, first-mover disadvantage or consumer behavioural biases, which, if ignored, may lead to non-optimal outcomes for achieving well-functioning markets" (OECD, 2021[38]). Further, the same paper notes that competition authorities face a balancing act between anti-competitive risks and beneficial green co-operation initiatives.

An example is the **European Commission** issuing guidelines in 2023 that aim to provide legal certainty when assessing whether horizontal agreements meet European Union (EU) competition rules (EC, 2023[39]). Such an assessment must be balanced with encouraging competition in ways that are economically desirable. Sustainable development is a priority focus for the EU as part of the "Green Deal". Accordingly, the guidance includes a chapter that sets out general guidance on the competitive assessment of the common types of agreements between competitors that pursue sustainability objectives.

More broadly, the EU Competition Law aims to "ensure that undertakings do not use horizontal cooperation agreements to prevent, restrict or distort competition in the internal market to the ultimate detriment of consumers". The assessment involves a two-step process: (i) whether an agreement that is capable of affecting trade between EU Member States, has an anti-competitive object or actual/potential limiting impact on competition; (ii) and if so, whether the advantages offset the disadvantages for competition. In relation to sustainability, it is stated that "[h]orizontal cooperation agreements can lead to substantial economic benefits, including sustainability benefits, in particular where they combine complementary activities, skills or assets". However, "[a]greements that restrict competition cannot escape…[the anti-competitive rules]…simply by referring to a sustainability objective". As such, sustainability agreements are assessed in a similar manner to other agreements from a competition perspective. Still, some of the key factors to qualify under the exemption are articulated, such as efficiency gains and collective benefits, as well as some degree of residual competition remaining (e.g. in relation to price or quality) (EC, 2023[39]).

An example where this issue has been directly addressed is in the **Netherlands**, where the Authority for Consumers and Markets (ACM) has issued guidance on the application of competition rules to horizontal and vertical sustainability agreements (finalised following the European Commission guidelines). Agreements are prohibited if their object, or their effect, is the prevention, restriction or distortion of competition. Sustainability agreements are defined to be "all agreements that pursue a sustainability objective, irrespective of the form of the cooperation". Examples include activities that reduce pollution, address climate change and ensure animal welfare. Agreements that restrict competition but also offer benefits that outweigh the negative effects of those agreements may be exempted from the prohibition.

Agreements that aim solely to ensure compliance with legally binding international treaties, agreements or conventions are exempt from the prohibition, both per the ACM guidance and the European Commission guidelines. In addition, ACM's position is that it will not further investigate an environmental damage agreement if the initial investigation demonstrates that the agreement is needed to achieve the environmental benefits and that the benefits outweigh the potential competitive disadvantages, thus serving the public interest (ACM, 2023[40]).

An example from Asia is the guidelines issued by the **Japan** Fair Trade Commission (JFTC), which aim to further Japan as a "green society" by "preventing anti-competitive conduct that stifles innovation such as the creation of new technologies, and encouraging the activities of enterprises, etc. toward the realization of a green society by further improving transparency in the application and enforcement of the Antimonopoly Act in relation to the activities of enterprises, etc., and predictability for enterprises". The basic premise of the guidance is that: (i) activities that do not have any anti-competitive effects and have the purpose of, for instance, reducing GHG emissions by developing innovative technologies are unlikely to cause a problem under the Antimonopoly Act; (ii) activities that have solely anti-competitive effects, even where they nominally aim to contribute to a green society, are a problem under the Antimonopoly Act; and (iii) activities that are anticipated to have both anti-competitive and pro-competitive effects, require a comprehensive consideration of "both types of effects generated by the activities with the rationality of the activity's purpose and the adequacy of the means employed for them", for instance whether there are less restrictive alternatives (JFTC, 2023[41]).

Another relevant example is from a stewardship code in **Australia**. Collaboration on stewardship is encouraged in the voluntary Australian Asset Owners Stewardship Code aimed at superannuation funds, where collaboration is described as a powerful lever.[1] However, this is balanced with: "[c]ollaboration must be conducted within the relevant regulatory requirements, including competition law, the substantial holding principles and takeover provisions of the Corporations Act 2001 and accompanying guidance…Collaboration activities should never include discussion on investment decisions, should not interfere with the market perception of the control of an entity and should ensure that all investors are able to consider and benefit from proposals" (ACSI, 2024[42]). In addition, the Australian Competition and Consumer Commission (ACCC) has a system in place that allows a company that will engage in conduct that may breach competition law to apply for an exemption of compliance with the rules if the conduct is in the public interest (ACCC, 2024[43]).

Similarly, the IIGCC acknowledges this issue and its webpage has a disclaimer that their work is conducted in line with competition laws and acting in concert rules. It emphasises "participants in any initiative will not be asked for and must not disclose or exchange strategic or competitively sensitive information or conduct themselves in any way that could restrict competition between members or their investment companies or result in members or the investment companies acting in concert" (IIGCC, 2024[44]). IIGCC also explain that investment, voting and decision making, including setting strategies, policies and practices, is at the discretion of members and that the "IIGCC does not require or seek collective decision-making or action with respect to acquiring, holding, disposing and/or voting of securities" (IIGCC, 2024[30]). Climate Action 100+ also has similar disclaimers.

OECD analysis of the 100 listed companies with the highest number of green patents found that institutional investors hold the largest equity portion in these highly innovative companies (37% of the shares). A one percentage point higher concentration in highly innovative companies compared to high-emitting companies demonstrates the potential for institutional investors to engage more effectively with these innovative companies, complementing the work of other initiatives (e.g. Climate Action 100+, which focusses on high-emitting companies) (OECD, 2025[45]).

2.3. The choice of areas for engagement

Traditionally, institutional investors have engaged with their portfolio companies in areas including strategy, financial performance, risk management, capital allocation and corporate governance. In recent years, institutional investors' engagement has also integrated sustainability-related risks and opportunities, such as climate change, natural capital preservation, water management, human rights, human capital and anti-corruption.

2.3.1. Examples of engagement policies

This section provides examples of engagement policies adopted by some of the largest asset managers and asset owners. It provides an overview of diverse engagement practices alongside varied prioritisation of objectives through different approaches and voting policies. The selection of asset managers and asset owners below aims to cover institutional investors who adopt active and index investment strategies across different jurisdictions (France, Norway, Japan and the United States). In some cases, there is a greater focus on corporate governance issues (the two index asset managers based in the United States), while in the other three cases, the engagement policies include a stronger emphasis on environmental and social matters (Norway's sovereign wealth fund, the French asset manager and the Japanese pension fund).

BlackRock

BlackRock's most prominent line of business is to manage funds following an index investment strategy. The BlackRock Investment Stewardship Global Principles cover seven topics, which serve as the basis of its stewardship and engagement (BlackRock, 2025[46]):

1. **Board and directors**: BlackRock considers engaging with and electing directors one of its primary responsibilities. Hence, BlackRock engages with companies' boards to assess their governance practices and board composition, focussing on areas such as independent leadership, risk management and ensuring directors have sufficient capacity to meet their responsibilities.
2. **Auditors and audit-related issues**: BlackRock highlights the importance of audit committee members' expertise and independence in ensuring the effectiveness of the audit process. BlackRock places significant emphasis on the relevance of financial statements, stressing that they must accurately reflect a company's financial health. Likewise, the asset manager expects

alignment of such statements with the guidance provided by the International Financial Reporting Standards (IFRS) and the International Auditing and Assurance Standards Board (IAASB).

3. **Capital structure, mergers, asset sales and other special transactions**: BlackRock stresses that voting rights should align with economic exposure, maintaining a one-share, one-vote principle. In assessing mergers, asset sales or other special transactions, BlackRock reviews proposed transactions by the board. Such transactions are expected to count on the unanimous support of the board and their previous negotiation at arm's length. BlackRock advocates for shareholders' right to freely trade shares without undue restrictions, suggesting shareholder approval for any measures restricting share trading, promoting shareholder autonomy and governance transparency.
4. **Executive compensation:** BlackRock underscores the importance of aligning executive compensation with company performance, advocating for clear links between pay and operational/financial results. While not taking a definitive position on sustainability criteria in compensation, it stresses the need for transparency and rigour if included. Emphasising long-term incentives and reasonable deferred compensation, BlackRock discourages special bonuses unrelated to performance and urges disclosure on discretionary decisions by compensation committees.
5. **Material sustainability-related risks and opportunities**: BlackRock expects investee companies to evaluate and manage material sustainability-related risks and opportunities. While BlackRock allows flexibility for companies and their stakeholders to determine the material aspects of their business, BlackRock places particular emphasis on nature and climate-related financial risks as possible material factors for companies. However, BlackRock's nuanced approach also acknowledges that nature and climate-related financial risks may not be material to all companies and allows for this flexibility. BlackRock looks to companies to disclose their approach to managing material climate-related risk and opportunities in their business models where possible in line with the International Sustainability Standards Board (ISSB) standards IFRS S1 and S2. However, BlackRock's approach recognises that regional variations in sustainability standards may exist due to market norms and regulations. Furthermore, BlackRock investigates three components of natural capital: land use and deforestation, water and biodiversity. While nature-related disclosures have been limited, BlackRock flags that market initiatives such as the Task Force on Nature-Related Financial Disclosures (TNFD) have been a useful guide for nature-related disclosure.
6. **Other corporate governance matters and shareholder protections:** BlackRock expects investee companies to publish information on the governance structures in place and the rights of shareholders to influence these structures. The board is responsible for determining the corporate form that is most appropriate given the company's purpose and business model. As a fiduciary on behalf of its clients, BlackRock generally supports management proposals if the analysis indicates that shareholders' economic interests are adequately protected. Relevant shareholder proposals are evaluated on a case-by-case basis.
7. **Shareholder proposals:** BlackRock recognises shareholders' rights to submit proposals on various issues, including governance, capital management and sustainability-related risks. However, legal and regulatory restrictions prevent BlackRock from submitting proposals, though the asset manager may vote on those submitted by others. Each proposal is assessed on its merits, with a focus on long-term financial value creation. BlackRock supports proposals that enhance transparency on material risks but opposes those that overreach into business decisions or impose undue constraints on management. BlackRock may also vote against directors if the board inadequately addresses key risks. Supporting a proposal does not imply full endorsement of the proponent's reasoning. In some cases, BlackRock may vote in favour to encourage progress on material risks aligned with clients' long-term interests.

BlackRock publishes voting guidelines for each region and they are not intended to be exhaustive. As such, the guidelines do not indicate how the asset manager will vote in every instance. Instead, they reflect the general views about corporate governance issues and provide insight into how they typically approach issues commonly arising on corporate ballots. Every year, BlackRock publishes an investment stewardship report with information on engagement and voting outcomes (BlackRock, 2025[47]).

Vanguard

The portfolio construction process of Vanguard-advised funds is mainly index based. Vanguard does not aim to impose strategies for investee companies, submit shareholder proposals or nominate board members. Instead, Vanguard uses engagement as an opportunity to further understand and share perspectives on companies' corporate governance practices (Vanguard, 2024[48]). For Vanguard's active funds, engagement and proxy voting decisions are undertaken by third-party investment advisors.

Vanguard's most recent Global Proxy Voting Policy analyses companies' corporate governance practices around four pillars (Vanguard, 2025[49]):

1. **Board composition and effectiveness**: Vanguard aims to understand how portfolio company boards fulfil their duties effectively. This includes assessing board composition for long-term success, consulting management on strategy and risk oversight, aligning executive incentives with shareholder interests, and safeguarding shareholder rights. Vanguard strives for independent, experienced, committed, capable and diverse board directors to best represent shareholder interests.
2. **Board oversight of strategy and risk:** Vanguard acknowledges that boards are critical in overseeing their companies' risks and long-term strategies. Vanguard centres its engagement on understanding the boards' strategy formation, risk evaluation processes, and disclosure of oversight activities to determine whether investors have insight into a company's long-term sustainability and accurate valuation based on disclosed material risks, including environmental and social factors.
3. **Executive pay**: Vanguard emphasises the impact of executive compensation on long-term investment returns, stressing the importance of linking pay to company performance compared to peers. Additionally, it opposes a one-size-fits-all approach to executive pay, advocating for consideration of industry, company size, maturity and region. Vanguard recommends incorporating corporate governance practices like shareholder advisory votes and board committee evaluations into compensation decisions.
4. **Shareholder rights:** Vanguard considers that effective corporate governance includes shareholders having the ability to influence and endorse changes in governance practices and board composition in line with their ownership of a company's shares. Vanguard considers it relevant for companies to implement appropriate governance measures, like annual director elections requiring a majority of votes, to ensure that boards and management act in shareholders' best interests.

Norges Bank Investment Management (NBIM)

Norges Bank Investment Management (NBIM) manages the Norwegian Government Pension Fund Global and it acknowledges that the partial ownership of the world's largest companies can influence their practices to encourage long-term value creation while reducing negative impacts on the environment and society. This responsible business strategy supports NBIM's goal of achieving the highest possible returns and maintaining manageable levels of risk (NBIM, 2024[50]).

NBIM prioritises engagement with companies to improve long-term financial performance and to reduce the financial risks associated with environmental and social practices of investee companies (NBIM, 2025[51]). Therefore, it monitors the ESG performance of the companies it invests in, calling it an "active ownership" approach (NBIM, 2024[52]). Based on international standards, including the UN Global Compact, OECD Guidelines for Multinational Enterprises and the UN Sustainable Development Goals, NBIM sets clear expectations on different fronts, including:

1. **Climate change and the environment**: Companies are expected to address challenges relating to climate change, water management and biodiversity, among others. NBIM considers the guidance offered by international initiatives such as the Taskforce on Climate-Related Financial Disclosures (TCFD) and the TNFD.
2. **Social:** NBIM expects companies to respect human and children's rights, manage human capital responsibly and address consumer-related risks. Companies should comply with the UN Guiding Principles on Business and Human Rights, implement policies to uphold these rights, assess social impacts, engage with stakeholders, and integrate these considerations into strategy and risk management. Companies must also combat corruption through clear policies, prudent tax practices, and transparency in economic value generation. NBIM expects that companies assign responsibilities, oversee management and report on their efforts in these areas.
3. **Governance**: NBIM regularly publishes position papers on specific corporate governance topics such as board independence and diversity, time commitment of board members, multiple share classes and related-party transactions.

After setting expectations for investee companies and sharing their opinions on key issues, NBIM assesses individual companies against these expectations and positions. If a company does not meet the expectations and there are no credible plans for reducing ESG risks, NBIM may decide to pursue an ESG risk-based divestment which is a financial decision. This is different from ethical exclusions, where NBIM may not invest, because a company's products or conduct violate fundamental ethical norms. All of NBIM's ethical exclusions are based on recommendations from an independent Council on Ethics.

Concerning its voting practices, NBIM has disclosed its global voting guidelines following the G20/OECD Principles of Corporate Governance, UN Global Compact, UN Guiding Principles on Business and Human Rights and the OECD Guidelines for Multinational Enterprises (NBIM, 2025[53]). The guidelines contain principles that establish NBIM's expectations in different areas, including board independence, board composition, board accountability, shareholder protection and company reporting. NBIM discloses its voting instructions five days before the shareholder meeting, where applicable, and in 2023 began publishing an annual voting report at the end of the voting season.

Amundi

Amundi is a large French asset manager offering investment funds that follow active and index investment strategies. Integrated in its Global Responsible Investing objectives, Amundi's engagement efforts aim to support investee companies' consideration of ESG risks and opportunities (Amundi, 2025[54]). Since 2019, Amundi has concentrated its active stewardship activity in two priority areas: climate transition and social cohesion. Nevertheless, engagement activities have also covered additional areas, namely natural capital preservation, product, client and societal responsibility, governance for sustainable development, as well as dialogue to foster a stronger voting exercise. Amundi's ESG research, engagement and voting team is responsible for developing tools to guide investment professionals in selecting the engagement themes and the targeted issuers.

All open engagements are recorded in a central tool shared with all investment professionals for transparency and traceability. The tool keeps track of the feedback on engagement topics and the progress on KPIs for performance improvement. An internal system of milestones assesses progress towards such KPIs. Amundi can consider further escalation if an engaged company has not demonstrated satisfactory progress over time. Escalation modes include (in no particular order) negative overrides in one or several criteria of the ESG score, asking questions at annual general meetings, votes against management, public statements, ESG score caps and ultimately divesting if the matter is critical.

To assure transparency and implement its Global Responsible Investing objectives, Amundi published its voting policy (Amundi, 2025[55]). It also sets its expectations on different fronts, including shareholder rights, boards, committees and governing bodies, financial structures, and remuneration policy. Amundi has also centralised the exercise of voting rights within the Voting and Corporate Governance team. The group co-ordinates all voting-related tasks, such as monitoring shareholder meetings within the voting scope or managing relations with custodians and proxy voting companies.

Government Pension Investment Fund (GPIF)

The GPIF is one of the largest institutional investors in the world, managing assets for Japan's public pension system. Established in 2006, the GPIF operates as an independent administrative institution under the Japanese Government. Its overarching goal is to contribute to the stability of the national pension system by securing the investment returns that it requires with minimal risk and from a long-term perspective to the sole benefit of pension recipients.

GPIF relies primarily on external asset managers to make investment decisions, but this is supported by diligent monitoring of external managers. This includes GPIF continuously monitoring the stewardship activities of asset managers, including their exercise of any voting rights, and proactively undertaking dialogue with external asset managers.

GPIF requires external asset managers to comply with their Stewardship Principles & Proxy Voting Principles (GPIF, 2020[56]). Where an asset manager does not comply with any of the principles, they are required to explain the rationale for non-compliance. GPIF's Stewardship Principles include the following requirements:

1. **Corporate Governance Structure of Asset Managers:** External asset managers awarded a mandate from GPIF should adopt Japan's Stewardship Code, have robust internal corporate governance structures, sufficient internal resources dedicated to stewardship, and explain how their remuneration and performance management policies are aligned with the interests of GPIF.
2. **Management of Conflict of Interest by Asset Managers:** External asset managers are required to appropriately manage conflicts of interest including in relation to voting decisions to put the beneficiaries' interests first.
3. **Policy for Stewardship Activities, including Engagement:** This section articulates GPIF's expectations of external asset managers in areas such as focussing on long-term risk-adjusted returns rather than short-term outcomes, integrating stewardship and ESG factors into investment decision making, engaging with a wide variety of stakeholders to improve the sustainability of markets in which they invest, and engaging with companies where they choose not to comply with local corporate governance code requirements.
4. **Exercise of Voting Rights:** Where exercising voting rights, external asset managers should adhere to GPIF's Proxy Voting Principles. When using a proxy voting adviser, asset managers should undertake proper due diligence prior to appointment and routinely monitor them thereafter to ensure service quality.

GPIF's Proxy Voting Principles set out expectations for external asset managers in relation to (GPIF, 2020[56]):

1. Exercising all voting rights in a manner consistent with their ongoing corporate engagements and other stewardship activities.
2. Developing and publishing publicly proxy voting policy or guidelines that will contribute to the maximisation of shareholders long-term interests.

3. Ensuring they have sufficient communication with companies in voting decisions.
4. Considering ESG issues when exercising voting rights.
5. Exercising voting rights in support of the corporate governance codes established by the individual countries in which their investee companies are domiciled.
6. Where the services of proxy advisors are utilised, their recommendations should not be mechanically followed, and careful consideration should be given to all voting decisions.
7. Disclosing their entire voting record on an individual company and individual agenda item basis.
8. Disclosing the rationale for their voting decisions based on necessity and/or importance as appropriate.
9. Disclosing voting records and the rationale for voting decisions including to investee companies where requested.

2.4. Companies' responsiveness to investors

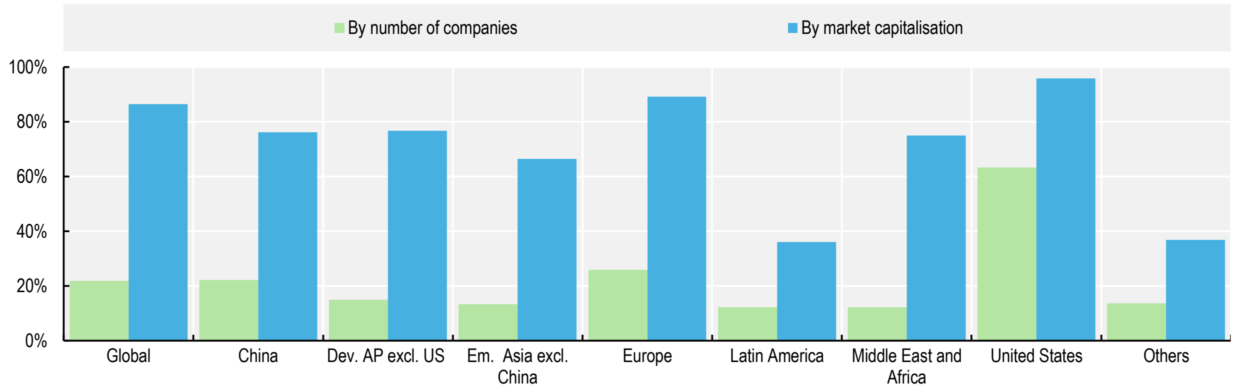
Enhancing direct interactions between the board of directors and management with institutional investors can significantly strengthen this engagement, provided all shareholders are treated equally.

The board of directors has an oversight duty that, if not adequately fulfilled, can undermine institutional investors' capacity to optimise their investment returns. If the board's responsiveness to institutional investor concerns involves a proactive approach, it can foster a long-term relationship between these parties. Independent directors can play a vital role in this context by offering an objective perspective when assessing the performance of senior executives, thus having the ability to increase the quality of dialogue beyond meeting regulatory disclosure requirements or issuing press releases.

This dialogue with the board has the potential to convey the company's needs and challenges effectively. From the board's perspective, it can improve its understanding of institutional investors' expectations and create self-awareness of, for instance, the current board's capabilities. Building detailed institutional investor profiles, including governance knowledge, voting trends, investment patterns and level of flexibility, can empower the board to challenge one-size-fits-all institutional investors' policies, potentially leading to more tailored and effective strategies (Freedman, Hall and Robertson, 2019[57]).

The effectiveness of the dialogue between institutional investors and boards can be influenced by companies' transparency in disclosing their engagement policies. Globally, more than 9 600 companies, which account for 86% of market capitalisation, disclose policies on shareholder engagement (Figure 2.3). In Europe and the United States approximately 90% of companies by market capitalisation disclose policies to facilitate shareholder engagement, while in Asia, this share averages 73%. The disclosure of policies on shareholder engagement considers whether the company has a policy to enable shareholder engagement, resolutions or proposals. It also considers whether the company facilitates shareholders' right to ask a question to the board of directors or senior executives or allows shareholders to table proposals at shareholder meetings.

Figure 2.3. Policies on shareholder engagement in 2024



Source: OECD (2025[45]), *Global Corporate Sustainability Report 2025*, https://doi.org/10.1787/bc25ce1e-en. OECD Corporate Sustainability dataset, LSEG.

While a significant proportion of companies globally disclose their shareholder engagement policies, it is likely that most interactions between boards and shareholders occur privately, resulting in limited public information about these engagements (Gatti, Strampelli and Tonello, 2022[58]). However, a survey targeted to corporate secretaries, general counsels and investor relations officers at US Securities and Exchange Commission (SEC)-registered publicly listed companies and supplemented by disclosure data on corporate-shareholder engagement from Russell 3 000 and S&P 500 companies and insights on the 2022 proxy season, found that shareholder engagement is more prevalent among large and mid-sized companies. This engagement primarily involves major asset managers, particularly with the largest publicly listed companies. Overall, engagement was found to be consequential, resulting in modifications to corporate practices, a withdrawal of shareholder proposals, alterations to previously announced proxy votes and the inclusion of director nominees proposed by engaged shareholders (Gatti, Strampelli and Tonello, 2022, p. 5[58]).

A study of 31 Principles for Responsible Investment (PRI)-co-ordinated engagement projects initiated between 2007 and 2015 indicates that the combination of lead investors working with supporting investors proves to be effective in achieving engagement objectives. The study includes 1 654 engagements targeting 960 publicly listed companies located in 63 jurisdictions involving a total of 224 different investment organisations from 24 jurisdictions, with the majority headquartered in Canada, the Netherlands, the United Kingdom and the United States (Dimson, Karakaş and Li, 2023[59]).

2.5. Asset managers and “privatised regulation”

The increase in assets held by large asset managers (Figure 1.4) has significantly expanded their voting rights across various industries and markets. One of the tools to exercise those voting rights is through the development of engagement and voting policies that provide the prioritisation of their objectives.

As discussed in Section 2.3, institutional investors have not only engaged with their investee companies in traditional corporate governance issues but have also increasingly engaged in matters such as sustainability-related disclosure and GHG emission reduction. In this sense, it has been claimed that this type of engagement could be defined as a form of “privatised regulation – a body of standards and mandates that can be more stringent than existing law, enforced with penalties, and applied across the market” (Lund, 2022[60]).The enforcement of this type of “privatised regulation” will not rely upon fines or other forms of sanctions but rather on eventual reputation costs or board removal.

Two topics where "privatised regulation" had become particularly influential were improving board diversity and managing climate-related risks at public companies in the United States. For board diversity, large index asset managers in the United States led gender diversity campaigns to increase the number of female directors. By 2020, the number of public companies without a female director dropped significantly with research indicating asset managers engagement and voting policies played a crucial role (Lund, 2022, p. 21[60]).

Similarly in 2020, asset managers pushed listed companies to address climate change through carbon reductions and enhanced disclosures in line with reporting standards such as the Sustainability Accounting Standards Board (SASB) Standards and TCFD Recommendations. In some cases, institutional investors supported shareholder climate-related proposals and used their significant voting power to vote against laggard companies. Research indicates the actions of large institutional investors led to reduced emissions and better climate-related disclosures (Lund, 2022, p. 27[60]).

The increased asset manager engagement in sustainability-related risks and opportunities may be partly explained by the fact that they might be motivated to internalise the negative externalities that impact their portfolio companies (Condon, 2020[61]). Moreover, since investors aim to maximise risk-adjusted returns, they benefit if they can reduce systematic risk, such as measures to reduce climate change or improve social stability (Gordon, 2022[62]).

Nevertheless, the business models of large, diversified asset managers may lead them to prioritise governance solutions that are scalable and cost-efficient (Lund, 2022[60]). As a result, index investors may be particularly inclined to engage on visible issues that matter to their clients, potentially at the expense of less visible corporate engagements, which may be important for value maximisation. In addition, asset managers may only have the incentive to enforce modest changes in investee companies that would not be controversial among their clients, such as marginally improving board gender diversity.

While critics argue that asset managers act as privatised regulators, this perspective may misrepresent their role in capital markets if the legal framework is fully enforced. As fiduciaries, institutional investors must prioritise their clients' best interests (Section 3.4.1). In most jurisdictions, they cannot pursue sustainability goals at the expense of risk-adjusted returns without a clear client mandate, as this would breach their fiduciary duties (Section 3.4.2). This limits how far their stewardship practice can go in addressing environmental and social issues that are not directly tied to value maximisation or preservation (Section 3.4.2).

3 Regulatory frameworks

This chapter reviews regulatory frameworks for investment management and stewardship across jurisdictions including laws, self-regulatory requirements, guidance, and other mechanisms. In particular, the chapter analyses the emergence and evolution of stewardship codes which are increasingly common in many jurisdictions. The chapter also highlights some recent examples of actions jurisdictions have taken to enhance the regulatory framework for stewardship and institutional investors. Complementing this analysis, it examines the regulatory framework for proxy advisors as key intermediaries in the investment chain. The chapter also discusses the fiduciary duties of institutional investors and how these obligations can shape, and in some cases limit, the scope of stewardship on environmental and social issues without a clear client mandate.

Institutional investors have become crucial public equity owners in many markets over recent years. In line with this growth, the influence of institutional investors has taken a crucial role in the corporate governance of companies. Recognising this importance, the G20/OECD Principles of Corporate Governance (hereafter "G20/OECD Principles") and regulatory frameworks have focussed on how institutional investors oversee and engage with investee companies to enhance and protect the value of investments on behalf of their clients and beneficiaries (OECD, 2023[63]).

3.1. G20/OECD Principles of Corporate Governance

The G20/OECD Principles provide a comprehensive framework to help policymakers evaluate and improve the legal, regulatory and institutional framework for corporate governance, with a view to supporting market confidence and integrity, economic efficiency, sustainable growth and financial stability. Chapter 3 of the G20/OECD Principles emphasises the importance of aligning incentives through the investment chain. In response to the growing influence of institutional investors and intermediaries, the G20/OECD Principles recognise stewardship codes and transparency regarding the role of entities and professionals that provide analysis or advice relevant to investor decision-making, including proxy advisors.

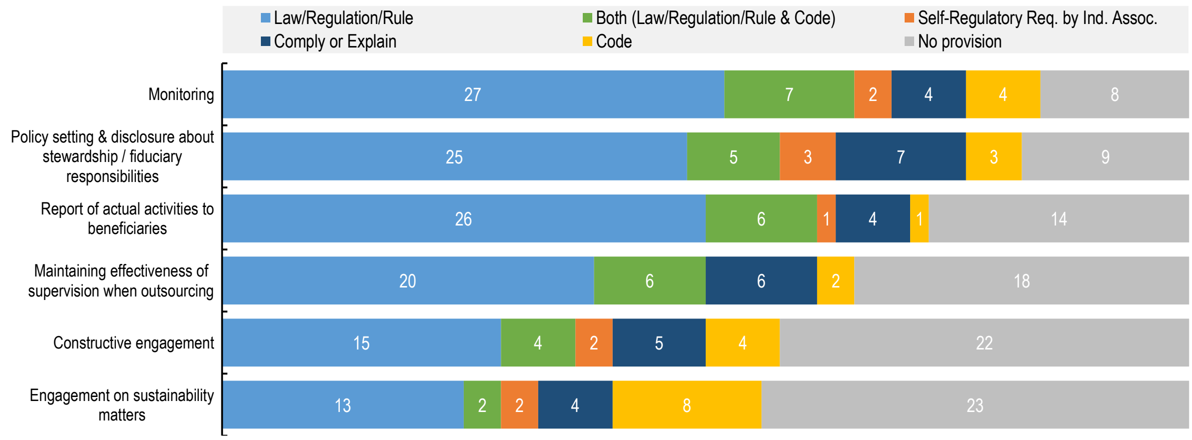
Principle III.A. of the G20/OECD Principles recommends that institutional investors acting in a fiduciary capacity should disclose their policies for corporate governance and voting with respect to their investments. Such transparency allows beneficiaries and clients to better understand how their investments are managed and the strategies used for engagement. Principle III.C. recommends institutional investors to disclose how they manage conflicts of interest that may affect the exercise of key ownership rights regarding their investments as these could impact decision making and the discharge of their fiduciary duties. For entities and professionals that provide analysis or advice relevant to decisions by investors such as proxy advisors, Principle III.D. emphasises that conflicts of interest should be disclosed and minimised and methodologies used by these entities and professionals should be transparent and publicly available.

3.2. Main characteristics of regulatory frameworks

Institutional investors are intermediaries that invest on behalf of their ultimate beneficiaries, which raises specific monitoring and stewardship concerns (OECD, 2023[64]). The regulatory framework relating to investment management and stewardship is formed by a mix of laws, codes, self-regulatory requirements, guidance and other mechanisms. This stewardship regulatory framework varies across jurisdictions and typically comprises a mix of public and private requirements and recommendations that, among other aspects, aim to improve governance and transparency and address conflicts of interest.

Looking at the 52 jurisdictions included in the 2025 OECD Corporate Governance Factbook, Figure 3.1 shows that many jurisdictions have specific requirements or recommendations for monitoring investee companies, maintaining the effectiveness of monitoring when outsourcing the exercise of voting rights and engaging on sustainability matters (OECD, 2025[22]).

Figure 3.1. Fiduciary responsibilities and stewardship of institutional investors



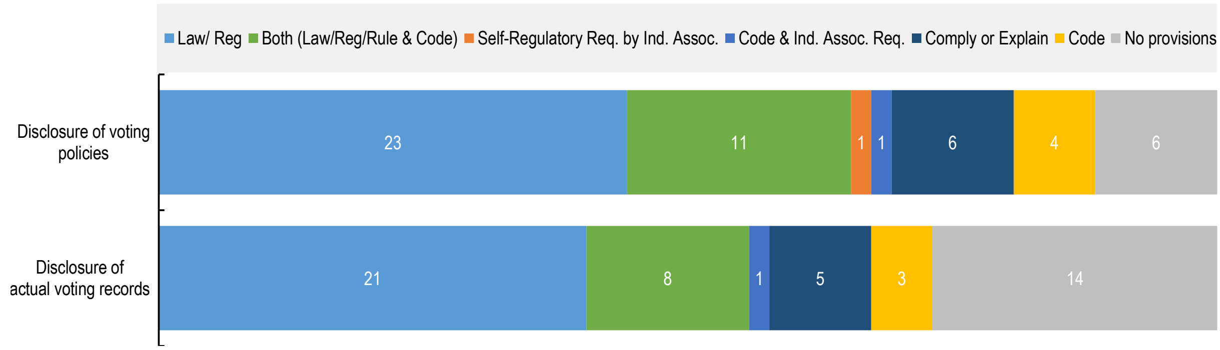
Note: Based on 52 jurisdictions, including all 38 OECD Members, as well as all non-OECD G20 and FSB members (Argentina, Brazil, China, Hong Kong (China), India, Indonesia, Saudi Arabia, Singapore and South Africa), as well as Malaysia and Peru. The figure also includes Bulgaria, Croatia and Romania as OECD accession candidate countries. For the data, see Table 3.17 of (OECD, 2025[22]).
Source: OECD (2025[22]), *OECD Corporate Governance Factbook 2025*, https://doi.org/10.1787/f4f43735-en.

The main characteristics of regulatory frameworks related to institutional investors' stewardship is set out in Table 3.1 below, focussing on a selection of jurisdictions that gives a diverse range of examples and market structures. The stewardship framework typically comprises requirements imposed by a public authority (e.g. laws, resolutions, regulations or codes set by public authorities), by private initiatives (e.g. investor associations setting codes, guidelines or other standards), or a mix of these approaches, as is the case in Australia, Brazil and South Africa. In addition, many jurisdictions impose requirements depending on the type of institutional investor (e.g. pension fund, insurer, investment fund and asset manager).

A stewardship code typically contains principles stating standards for the manner and type of engagement of institutional investors with investee companies. Stewardship codes have been introduced in at least 19 jurisdictions and offer a complementary regulatory mechanism to encourage institutional investors to disclose their corporate governance and voting policies and procedures (OECD, 2025[22]). An increasing number of jurisdictions have adopted stewardship codes or required disclosure by institutional investors (asset owners and managers) on how they engage with investee companies and vote in shareholder meetings, as part of the tools within their regulatory framework (Katelouzou and Puchniak, 2023[65]). Stewardship codes vary between being set by public authorities (e.g. Japan and the United Kingdom) or by private sector organisations, such as industry associations (e.g. Australia, Brazil, South Africa and the United States). Signatories may be required to explain in their annual report the extent to which the principles in the codes have been complied with or diverged from and why.

The formulation of institutional investors' voting policies generally must be in line with their fiduciary duties to their clients and beneficiaries (Section 3.4). The disclosure of voting policies and actual voting records is a crucial aspect that forms the regulatory framework of most jurisdictions (Figure 3.2). Out of 52 surveyed jurisdictions in the 2025 OECD Corporate Governance Factbook, the vast majority (all but six) now require or recommend that some institutional investors disclose their voting policies. Seventy-three percent of this same group of 52 jurisdictions also recommend or require the disclosure of the actual voting records (OECD, 2025[22]). However, often the quality and comparability of voting records vary across institutional investors and jurisdictions. In the United Kingdom, the Financial Conduct Authority (FCA) worked alongside the institutional investment industry to design a voluntary vote reporting template for asset managers in the UK to ensure asset owners have more consistent, up-to-date and comparable data which would position them to make timely and accurate decisions based on the information received.

Figure 3.2. Disclosure of voting policies and actual voting records by institutional investors



Note: Based on 52 jurisdictions. For the data, see Table 3.16 of (OECD, 2025[22]). The category "Code & Ind. Assoc. Req." refers to jurisdictions that possess both a code and a self-regulatory requirement by industry association(s) without comply or explain disclosure requirements.
Source: OECD (2025[22]), *OECD Corporate Governance Factbook 2025*, https://doi.org/10.1787/f4f43735-en.

Some jurisdictions oblige or encourage institutional investors to vote on specific matters. For example, **Switzerland** requires pension fund schemes to vote in the interest of their insured persons on specific matters, including the compensation and election of the board of directors and compensation committee members. In **Israel**, institutional investors, like fund managers, insurance companies, pension funds and provident funds, must vote on certain resolutions. The reverse is also observed in certain countries, where there are constraints on voting for certain investors (e.g. one of the state-owned pension funds in **Sweden**, the Seventh National Pension Fund referred to as AP7) (OECD, 2023[64]; Hamilton and Eriksson, 2011[66]).

The rationale behind either making voting mandatory or imposing constraints on voting by some types of institutional investors differs depending on the policy objective and market structure. For instance, making voting mandatory may aim to increase participation from shareholders in the corporate governance of investee companies if there is increasing index institutional investor ownership in the market. Or conversely, some jurisdictions may impose stricter voting requirements for institutional investors with significant shares of the AUM in the domestic market, to prevent excessive influence, for instance, state influence on investee companies' business strategy (Charléty, Fagart and Souam, 2019[67]; Fukami, Blume and Magnusson, 2022[68]; OECD, 2023[64]; Hamilton and Eriksson, 2011[66]).

Instead of introducing a stewardship code, the **EU** introduced the Shareholder Rights Directive II (SRD II), which aims to strengthen the engagement of shareholders and increase transparency. This directive has resulted in more jurisdictions requiring or recommending that institutional investors disclose both voting policies and voting records (OECD, 2023[64]). To assist with implementing this directive, the European Fund and Asset Management Association (EFAMA) revised their Stewardship Code in 2018, which aims to be a European reference document for asset managers seeking to comply with the SRD II, in particular the engagement policy requirement (EFAMA, 2018[69]).

Further, requirements or recommendations for institutional investors to monitor investee companies are common in many regulatory frameworks (in 44 of the 52 jurisdictions in the Factbook) (Table 3.1).

Conflicts of interest are an important issue to consider when examining the regulatory framework because they can undermine the trust and accountability required when institutional investors manage investments and for meeting fiduciary duty obligations. Conflicts of interest can occur at multiple levels, including where a bank provides corporate finance advisory services such capital raising but also owns an asset management subsidiary that buys and sells securities (Wong, 2011[70]). This report focusses on conflicts of interest within the investment chain but particularly between asset owners and asset managers and institutional investors that use service providers such as proxy advisors.

The setting and disclosure of conflicts of interest policy is another key element of many regulatory frameworks (a requirement or recommendation to establish such policies exists in 98% of Factbook jurisdictions, and frameworks for such disclosure have increased to 75% of Factbook jurisdictions) For example, the Investment Company Act of 1940 in the **United States** require registered investment companies to set a conflict management policy.

Constructive engagement, in the form of purposeful dialogues with investee companies on issues like strategy, performance, risk, capital structure and corporate governance, is required in 21 out of the 52 Factbook jurisdictions and recommended in 9 jurisdictions. For example, **Japan's** Stewardship Code outlines stewardship responsibilities to include voting, proper monitoring and constructive engagement with investee companies. The overarching aim of the code is for institutional investors to "enhance the medium- to long-term return on investments for their clients and beneficiaries by improving and fostering investee companies' corporate value and sustainable growth through constructive engagement, or purposeful dialogue , based on in-depth knowledge of the companies and their business environment and consideration of sustainability (medium- to long-term sustainability including ESG factors) consistent with their investment management strategies". Specifically, Principle 4 recommends institutional investors use constructive engagement with investee companies to solve problems and attain a common understanding with investee companies. The code applies to institutional investors (including asset owners and asset managers) and service providers for institutional investors, and it applies on a comply or explain disclosure basis (FSA, 2025[71]).

"Engagement on sustainability issues" in Table 3.1 refers to regulatory or code provisions that go beyond the governance topics cited in the prior paragraphs, to explicitly address environmental or social issues including, for example, climate-related concerns. It is required or recommended in some way in 29 out of the 52 Factbook jurisdictions, including, for example, in **Brazil**: Principle 3 of the Association of Capital Market Investors (AMEC) stewardship code states that institutional investors should "[t]ake ESG factors into account in their investment processes and stewardship activities". It further elaborates that ESG factors are crucial aspects to consider in fulfilling an institutional investors' fiduciary duty and that they should be transparent about this process (AMEC, 2021[72]).

The regulatory framework relating to "maintaining the effectiveness of supervision when outsourcing" refers to whether institutional investors remain responsible for ensuring that outsourced activities associated with stewardship are carried out in a manner consistent with the institutional investor's approach to stewardship (Table 3.1). For instance, in the situation where institutional investors outsource some activities to external service providers like proxy advisors and investment consultants, which is the case under the **United Kingdom** Stewardship Code 2020 and the revised 2026 Code. These types of requirements or recommendations apply to 34 out of the 52 Factbook jurisdictions.

Providing a report of actual activities to clients or beneficiaries is another important transparency mechanism in many stewardship regulatory frameworks (Table 3.1); for instance, it is required in some way in 38 out of the 52 Factbook jurisdictions. An example in **Australia** is the final principle of the Australian Council of Superannuation Investors (ACSI) Australian Asset Owner Stewardship Code that stipulates that asset owners should report about their stewardship activities to beneficiaries to demonstrate their stewardship commitment and accountability (ACSI, 2024[42]).

Table 3.1. Comparison of regulatory framework requirements for institutional investors

Law	Comply or explain	Code (no comply or explain)	Self-regulatory requirement	No requirement

	Australia	Brazil	France	Japan	South Africa	United Kingdom	United States
Stewardship regulatory framework	**Public** for investment funds, pension funds, life insurance **Private** for FSC and ACSI members	**Public** for investment funds and asset managers **Private** for institutional investors	**Public** for investment funds and asset managers	**Public** for institutional investors	**Public** for pension funds, asset managers (including some financial institutions) **Private** for asset owners, asset managers	**Public** for asset managers, asset owners, insurers, pension funds	**Public** for registered management investment companies, registered investment advisers, private pension funds
Stewardship code	**Private** for FSC and ACSI members	**Private** for institutional investors	-	**Public** for institutional investors and service providers	**Private** for asset owners, asset managers	**Public** for asset managers, asset owners and service providers	**Private** for institutional investors
Disclosure of voting policy and actual voting records	Law Self-regulatory requirement	Law Self-regulatory requirement	Law	Comply or explain disclosure	No requirement Code	Law Code	Law No requirement
Setting and disclosure of conflicts of interest policy	Law Self-regulatory requirement	Law Self-regulatory requirement	Law for setting the policy No requirement for disclosure	Comply or explain disclosure	Law Code	Law Code	Law No requirement
Monitoring	Law Self-regulatory requirement	Law	Law	Comply or explain disclosure	Law Self-regulatory requirement	Comply or explain disclosure Code	Law No requirement
Constructive engagement	Self-regulatory requirement	Code	Law	Comply or explain disclosure	Law Code	Law Code	No requirement
Engagement on sustainability issues	Self-regulatory requirement	Code	Law	Comply or explain disclosure	Code	Code	No requirement
Maintaining effectiveness of supervision when outsourcing	Law	Law	No requirement	Comply or explain disclosure	Law Self-regulatory requirement	Law Code	Law
Report of actual activities to clients/ beneficiaries	Law	No requirement	Law	Comply or explain disclosure	Law Self-regulatory requirement	Comply or explain disclosure Code	Law No requirement

Note: "Constructive engagement" in the top row means purposeful dialogues with investee companies on matters such as strategy, performance, risk, capital structure and corporate governance. "FSC" refers to the Financial Services Council in Australia; "ACSI" refers to the Australian Council of Superannuation Investors. When the row is split into two for some of the issues covered in the table, it refers to a framework that applies to different groups of institutional investors. For instance, in the United States, the disclosure of voting policy and actual voting records is a requirement for registered management investment companies and registered investment advisers (proxy voting).

Source: Based on OECD (2023[64]), *OECD Corporate Governance Factbook 2023*, https://doi.org/10.1787/6d912314-en, Tables 3.11 and 3.12.

Relevantly, recent OECD analysis found that institutional investors hold the largest equity portion (36% of shares) in the 100 listed companies with the highest disclosed GHG emissions (OECD, 2025[45]). This emphasises the importance of corporate governance and stewardship frameworks to facilitate and support shareholder engagement with investee companies. Further, it was found that in markets where most, if not all, high-emitting companies have a well-defined controlling shareholder, investors' engagement activities may be less successful. This is because minority shareholders may have less access to the board or management and, therefore, see their engagement efforts as ineffective due to the controlling shareholders' influence. In a different scenario, where there is no well-defined controlling shareholder at high-emitting companies, engagement activities by institutional investors may be more successful because of their ability to influence the board or management through their voting and engagement strategies. However, the increasing adoption of dual class share structures in some markets may limit the influence of non-controlling shareholders through their engagement and voting strategies with investee companies (Giner, Felleca and Cook, 2025[73]).

3.2.1. Some recent regulatory updates

There are various examples of jurisdictions taking steps to enhance the regulatory framework for stewardship and institutional investors.

In the **United Kingdom**, the FCA consulted "to build industry consensus on a voluntary vote reporting template for asset managers in the UK." The proposals aimed to ensure asset owners have more consistent, up-to-date and comparable data, on voting activities, which would position asset owners to make timely and accurate decisions based on the information received, including helping them decide where to invest their money (FCA, 2023[74]). The feedback statement, which includes the agreed vote reporting template, was published in March 2025 (FCA, 2025[75]).

In 2023, **Japan** published a Policy Plan for Promoting Japan as a Leading Asset Management Center, which includes stewardship activity reforms to enhance effective engagement between institutional investors and companies. The broader aim of the plan is to encourage household savings to flow into more productive investments. A review of progress was conducted in March 2025 (FSA, 2024[76]).

Building on earlier reforms, in 2024, **Japan** released the Asset Owner Principles which set common principles for asset owners to fulfil their fiduciary duty to manage assets in the best interests of the beneficiaries. The main points include: the clarification of investment objectives; use of specialist knowledge; selection of appropriate investment methods; information disclosure; and promotion of stewardship activities. The principles require asset owners to fulfil their stewardship responsibilities by promoting the improvement of corporate value and sustainable growth of investee companies through constructive "purposeful dialogue" (engagement) based on a deep understanding of investee companies and their business environment either by themselves or through investment management companies to achieve their investment objectives over the long term. To fulfil this responsibility, asset owners are required to consider taking action in line with the aims of Japan's Stewardship Code, while taking into account their own scale and capabilities and to declare their acceptance of the code (Cabinet Secretariat, 2024[77]).

In November 2024, the **United Kingdom's** Financial Reporting Council (FRC) launched a consultation to update the 2020 UK Stewardship Code. The revised 2026 UK Stewardship Code was published in June 2025 and will take effect on 1 January 2026 (FRC, 2025[78]). A notable change includes Principles to be applied specifically by proxy advisors and investment consultants to reflect the importance of the services they provide to institutional investors.

In the **European Union**, the Sustainable Finance Disclosure Regulation (SFDR) is creating increased transparency obligations for institutional investors regarding mandatory information disclosure to clients on sustainability issues (European Commission, 2024[79]) which is changing how they engage with companies.

Institutional investors can use engagement to ensure companies adopt and report on their sustainability practices, which in turn supports institutional investors meeting their regulatory obligations under SFDR.

In 2024, the European Securities and Markets Authority (ESMA) recommended the European Commission consider establishing an **EU** stewardship code that would apply institutional investors and wider service providers (ESMA, 2024[80]).

3.3. Emergence and evolution of stewardship standards and codes

As mentioned in Section 3.2, stewardship codes typically contain principles stating standards for the manner and type of engagement of institutional investors with investee companies. Stewardship codes have been introduced in at least 19 jurisdictions and offer a complementary regulatory mechanism to encourage institutional investors to disclose their corporate governance and voting policies and procedures (Fukami, Blume and Magnusson, 2022[68]). Stewardship codes have also been developed by regional or international actors, for instance **EFAMA** developed a Stewardship Code containing principles for European asset managers' monitoring of, voting in, and engagement with investee companies, and the **International Corporate Governance Network (ICGN)** revised their Global Stewardship Principles in 2024.

The first stewardship code was issued by the **United Kingdom** in 2010, following the global financial crisis. Many jurisdictions internationally have since adopted similar stewardship codes, with the vast majority based on the United Kingdom model. The UK code has played an extensive role, both in terms of content and structure, as a model for codes developed and adopted in other jurisdictions internationally (Katelouzou and Puchniak, 2023[65]). In general, most stewardship codes are principles-based, so they can be adapted to the specific institutional investor and their investment strategy. This is the case for all the stewardship codes in the jurisdictions and regions analysed in Table 3.2.

There are similarities and differences between stewardship codes across jurisdictions. The motivation and focus of stewardship codes can vary, for instance to encourage institutional investors to actively engage in the **corporate governance** of investee companies, often through a "comply or explain" approach. However, this approach can be less helpful in effecting change in jurisdictions where there are many companies with controlling shareholder. Some codes encourage institutional investors to adopt a **sustainability strategy and engagement approach** to influence investee companies while informing beneficiaries, enabling them to direct funds toward sustainable businesses. Stewardship codes might also have an internal **investment management** focus, which sets out good investment management practices to discharge the institutional investor's duties to their clients (Katelouzou and Puchniak, 2023[65]).

Table 3.2 highlights a trend over recent years, where most stewardship codes now recommend institutional investors to have a focus on sustainability, although the degree varies widely. For example, the **Brazilian** Stewardship Code and **ICGN** Global Stewardship Principles both have a principle that requires a consideration of ESG factors as part of institutional investors' fiduciary responsibilities. For example, a core motivation for the Code for Responsible Investing in South Africa is to recognise the importance of integrating sustainability issues into long-term investment strategies and the critical stewardship role that institutional investors play in this.

Stewardship codes usually take a comply or explain approach, where signatories may be required to explain in their annual report the extent to which the principles in the codes have been complied with or diverged from and why. As outlined in **Japan's** Stewardship Code, "if an institutional investor finds that some of the principles of the Code are not suitable for it, then by explaining a sufficient reason, the investor can choose not to comply with them." This approach provides flexibility for companies to achieve desired outcomes while addressing their specificities, such as allowing institutional investors to adapt the codes to their particular investment strategies. Another example is in **Australia**, where the Financial Services

Council (FSC) Standard No 23 “Principles of Internal Governance and Asset Stewardship”, which has a focus on the internal governance of asset managers, applies to all asset manager members on a comply or explain basis.

Table 3.2 shows that stewardship codes vary between being set by public authorities or by private sector organisations such as industry associations. Recent research found that the stewardship codes developed in nearly half of the jurisdictions studied were developed by private initiatives (Katelouzou and Puchniak, 2023[65]). Table 3.2 shows that most stewardship codes have undergone regular, well-defined reviews, resulting in revised versions over time.

There are also cross-border considerations to the regulatory framework, because the institutional investors controlling a large number of shares in a market may be foreign based. As such, if requirements only apply to domestic institutional investors (such as monitoring and managing conflicts of interest), then voluntary codes, which can also be adopted by both domestic and foreign institutional investors, can be a tool to help to improve stewardship. However, the effect of stewardship codes may be limited as many are of a voluntary nature, especially for foreign institutional investors. Further, in many jurisdictions institutional investors collectively do not have majority ownership of most listed companies (Katelouzou and Puchniak, 2023[65]; Fukami, Blume and Magnusson, 2022[68]). Also, the effectiveness of stewardship codes may differ significantly across jurisdictions depending on the legal frameworks, market maturity and cultural attitudes towards corporate governance matters (Katelouzou and Siems, 2020[81]).

Table 3.2. Comparison of stewardship codes for institutional investors

	Australia	Brazil	European Union	Japan	South Africa	United Kingdom	United States
Stewardship code setter	**Private**, Financial Services Council (FSC); **Private**, Australian Council of Superannuation Investors (ACSI)	**Private**, Association of Capital Market Investors (AMEC) and CFA Society Brazil	**Private**, European Fund and Asset Management Association (EFAMA)	**Public**, Financial Services Agency	**Private**, Institute of Directors Southern Africa	**Public**, Financial Reporting Council (FRC)	**Private**, Investor Stewardship Group (ISG)
Stewardship code issue year including where updates have been undertaken	2017 FSC Standard No 23: Principles of Internal Governance and Asset Stewardship; 2018, 2024 ACSI Australian Asset Owner Stewardship Code	2016 Brazilian Stewardship Code	2011, 2018 EFAMA Stewardship Code	2014, 2017, 2020 and 2025 Principles for Responsible Institutional Investors: Japan’s Stewardship Code	2011, 2022 Code for Responsible Investing in South Africa	2010, 2012, 2020 UK Stewardship Code; 2026 UK Stewardship Code	2018 ISG Stewardship framework for institutional investors
Stewardship code type	**Private** for FSC (asset managers) and ACSI members (asset owners)	**Private** for institutional investors	**Private** for asset managers	**Public** for institutional investors and service providers	**Private** for asset owners, asset managers	**Public** for asset managers, asset owners and service providers	**Private** for institutional investors
Principles-based	FSC: Yes; ACSI: Yes	Yes	Yes	Yes	Yes	Yes	Yes
Main focus	FSC: Investment management; ACSI: Corporate	Corporate governance	Corporate governance	Corporate governance, Investment management,	Sustainability	Corporate governance, Investment management,	Corporate governance

	Australia	Brazil	European Union	Japan	South Africa	United Kingdom	United States
	governance			Sustainability		Sustainability	
Sustainability focus	FSC: Yes; ACSI: Yes	Yes	Yes	Yes	Yes	Yes	No
Application	FSC: Comply or explain for members; ACSI: Voluntary, comply or explain for signatories	Voluntary, comply or explain for signatories	Voluntary, comply or explain	Voluntary, comply or explain for signatories	Voluntary, apply and explain for institutions using them	Voluntary, apply and explain	Voluntary, no comply or explain obligation

Source: Based on data in Katelouzou and Puchniak (2023[65]), Global Shareholder Stewardship, https://doi.org/10.1017/9781108914819: Table 1.5.

3.4. Fiduciary duties of institutional investors and the exercise of stewardship

3.4.1. Fiduciary duties

Institutional investors owe a fiduciary duty to their clients and ultimate beneficiaries that they are investing on behalf. Fiduciary duty refers to an institutional investor's legal obligation to act in their clients' best interests. Put simply and recognising differences between jurisdictions, this would typically mean institutional investors have a legal duty of care and loyalty to clients when making investment decisions (PRI and UNEP FI, 2019[82]). A duty of care implies that institutional investors must exercise diligence, competence and prudence in managing investments and associated risks. The duty of loyalty requires institutional investors to act solely in the best interests of clients, including when managing conflicts of interest.

Fiduciary duties are an essential part of the investor protection framework, and two aspects of applying these duties should be highlighted. First, considerations about fiduciary duties become more critical the more significant the institutional investor's discretion to make decisions. This first aspect is considered in the paragraphs below. Second, except in extreme cases of poorly managed conflicts of interest and gross negligence, the courts and regulators will not typically second-guess institutional investors' investment and stewardship decisions. This effectively means that the disclosure by institutional investors of their stewardship policies and activities – and how their clients consider the published information – may be more critical for investors to fulfil their fiduciary duties than the public enforcement of the legal duties.

On the one hand, if the contract or mandate between the asset owner and the asset manager explicitly establishes a concrete obligation to the manager, there would hardly be a question of whether the asset manager fulfilled its fiduciary duties when meeting the obligation. For example, if it is contractually established that the asset manager should exercise voting rights in all investee companies, there is no fiduciary duties-related consideration if the manager does not vote in some cases (there is simply a breach of a contractual clause). On the other hand, if the contract is silent about competing options, the discussion about fiduciary duties would be more substantial. For example, in the case of managers of mutual funds that are not labelled as "sustainable", considerations about fiduciary duties may arise if the manager engaged with companies on their environmental performance where it is not clear whether the goal is to maximise or preserve risk-adjusted financial returns.

Therefore, a reasonable solution for complex discussions on institutional investors' fiduciary duties is to contractually establish how specific matters should be dealt with. For instance, whether institutional investors are expected to be active stewards and if they should consider environmental and social matters in their engagement with investee companies.

In **Australia**, the Superannuation Industry (Supervision) Act 1993 requires superannuation trustees to act honestly, to exercise a prescribed standard of care, skill and diligence, to act in the best financial interests of the beneficiaries and to give priority to beneficiaries where there is a conflict of interest. Further, the law requires the trustee to formulate an investment strategy, and the Australian Prudential Regulatory Authority (APRA) has clarified that in doing this, they expect a trustee to clearly articulate “an investment philosophy, including the extent to which ESG considerations inform that philosophy. This can help to provide a clear statement to beneficiaries and other key stakeholders by providing longer term guiding principles for investment decision-makers” (APRA, 2023[83]).

In the **United Kingdom**, many employees can choose an investment strategy for their pension savings based on its goals, such as sustainability goals. Accordingly, the trustees of pension schemes with 100 or more members are required to publicly state their policy on engagement activities in their Statement of Investment Principles (UK Department for Work and Pensions, 2022[84]).

Without greater precision of clients’ and beneficiaries’ preferences and expectations, however, deliberations about fiduciary duties may need to be handled. This is notably important in the cases of stewardship activities by index investors and consideration of sustainability matters by institutional investors more broadly:

1. If mandates do not explicitly state or define the asset managers’ role in engagement, index managers may prioritise cost minimisation over resource-intensive engagement activities. However, since active stewardship may be essential to safeguarding and growing long-term portfolio value, it is an open question whether engagement would be seen as a key component of fiduciary duties, including in the case of index asset managers.
2. If there is a lack of clarity in mandates regarding the trade-offs, including, in some cases, financial losses clients are willing to endure regarding sustainability issues, this can impact how institutional investors undertake stewardship and interpret their fiduciary duties. For instance, institutional investors may struggle to balance financial returns with sustainability goals without clear guidance on clients’ views in relation to the trade-off they may be willing to accept. This ambiguity can lead to decisions that fail to align with the expectations of clients and institutional investors having a more cautious interpretation of their fiduciary duties.

3.4.2. Limitations of stewardship from institutional investors

Most jurisdictions do not allow institutional investors managing their clients and beneficiaries’ capital to invest with the objective of achieving sustainability-related goals at the cost of risk-adjusted financial returns unless they have a clear mandate from their clients as this would breach their fiduciary duty obligations. This naturally places limits on how ambitious an institutional investor stewardship practice may be to address environmental and social issues at investee companies.

The current ownership structure of the top 100 high-emitting companies shows that institutional investors hold the largest share, at 36% (OECD, 2025[45]). Some public policy debates around high-emitting companies, particularly in sectors such as fossil fuels, have identified divestment as one potential avenue that may have reputational and financial consequences for these firms. However, divestment campaigns may have limited impact, as a targeted firm would only be significantly affected if a large share of its investors chose to exit – reducing the liquidity of its stock and thereby increasing the expected return demanded by remaining investors, or in other words, raising the company’s cost of capital. Although divestment campaigns may be associated with lower capital flows to high-emitting companies (Cojoianu et al., 2021[85]), their effectiveness in changing policy preferences may, therefore, be limited (Schwartz, Lendway and Nuri, 2023[86]).

In contrast, if institutional investors intensify their engagement with high-emitting companies, it presents an opportunity for ongoing oversight over these companies. If institutional investors were to advocate for strategies that align with value maximisation, such as investing in potentially profitable greener technologies to reduce their emissions, engagement may incentivise investee companies to make such investments. In practice, however, often the engagement's demands and associated outcomes are focussed on investee companies adopting disclosure, setting environmental objectives or commencing an environmental programme, which are low cost for companies with limited real-world impact (Gosling, 2024[87]; McDonnell and Gupta, 2024[88]).

A recent paper examining the impact of sustainable investing found institutional investors – both traditional and sustainable investors – recognised the priority of financial returns and of delivering on their fiduciary duty, and both types of investors view long-term shareholder value as the main reason for engaging on environmental and social issues (Edmans, Gosling and Jenter, 2024[89]).

3.4.3. Universal owners

The "universal ownership theory" argues that large diversified institutional investors may seek to reduce harmful externalities if the overall benefit to their portfolios outweighs the harm to the companies causing them (Coffee Jr, 2021[90]). Universal ownership theory argues that investors' financial interests at the portfolio level are optimised by taking an economy-wide view of the impact of investment decisions, managing systemic risks and internalising intra-portfolio externalities. There are two key limitations in the universal ownership theory: first, its implementation may be overly complex and possible in only few cases; second, the fiduciary duties of the boards of investee companies and the rights of shareholders may impose an insurmountable barrier.

With respect to the implementation of the theory at the institutional investor level, it would need to find most companies that are the source of a specific externality in a market with high barriers to entry. This is essential because, in a highly competitive market, a company that internalises externalities would likely become financially non-sustainable in the long-term. Furthermore, the investor would need to calculate the value of the externalities in monetary terms and compare it with the benefit accrued by the other companies in its portfolio.

Even in the implausible case where an investor could find, for instance, a monopolist as the source of significant externalities and present a reasonable assessment that a financial loss in that company would be overcome by the higher financial performance of the other investee companies, the fiduciary duties of the board of directors of the investee companies would likely be an insurmountable obstacle. While a decision to internalise the externalities of company may be justified at the investor's portfolio level, the board of directors is responsible solely for the financial performance of the company. Furthermore, the shareholders of this company – even if in a minority – have the right to be treated equally and would probably be able to oppose a business decision that provides a private benefit for other investors willing to maximise their portfolios' financial performance.

3.5. Regulation of proxy advisors

Institutional investors often use proxy advisory firms, known as proxy advisors, to help formulate voting intentions on proposals by investee companies, including on the election of directors and policies and practices of the company. Given the large number of potential company proposals for institutional investors to vote on at each shareholder meeting, proxy advisors play a key role in the ecosystem of investor engagement, by assisting institutional investors when taking their voting positions and minimising the cost. Primarily, proxy advisors analyse the resolutions presented at the company shareholder meetings and provide recommendations to their client (i.e. institutional investors) on whether to vote in favour or against the proposal. The proxy advisor owes a fiduciary duty to their client (ISS, 2024[91]). While institutional investors take their advice, the institutional investor needs to form their own view, as they remain responsible for their decision on how they vote.

However, the extent of institutional investors' dependence on proxy advisors, and the wide-ranging influence that proxy advisors may have on voting positions by institutional investors, requires the framework that regulates them to be examined. Of particular importance are their management and disclosure of conflicts of interest, good governance practices that ensure appropriate independence and objectivity, transparency regarding their methodology and voting advice, effective communication between proxy advisors and the companies on which they provide voting recommendations to clients; and robust systems and controls.

Two firms dominate the proxy advisory industry: **Institutional Shareholder Services** (ISS) and **Glass Lewis** (GL). Together they have been estimated to represent a market share of approximately 90% (Chong, 2024[92]). GL covers over 30 000 meetings each year in approximately 100 markets and their clients collectively manage more than USD 40 trillion in assets (GL, 2025[93]). ISS' coverage is over 50 000 meetings per year in 100 markets, representing approximately 4 200 clients (ISS, 2025[94]).

ISS discloses on their website their proxy voting guidelines by region, along with policies, FAQs and methodologies for certain topics. They also publish their policies on key topics, such as Sustainability, Climate, Socially Responsible Investment and Faith-Based. An example of one of their regional policies is the 2024 Brazil Proxy Voting Guidelines Benchmark Policy Recommendations, which contains general recommendations that ISS will make for certain key topics in this region, and the factors that will be relevant in them making them. For instance, in relation to climate accountability and board composition in Brazil, ISS will generally recommend to vote against the incumbent chair of the board for companies that are significant GHG emitters (through their operations or value chain) if ISS determines that the company is not taking the "minimum steps needed to understand, assess, and mitigate risks related to climate change to the company and the larger economy" (ISS, 2024[95]).

Similarly, GL provides on their website their Benchmark Policy by each of the markets that they cover. GL also provides their Thematic Voting Policies on their website (e.g. Corporate Governance Focused, Investment Manager, ESG, Catholic). For instance, the 2024 Investment Manager Thematic Voting Policy Guidelines set out that in relation to shareholder proposals about the environment, they will recommend voting against proposals "seeking to cease a certain practice or take certain actions related to a company's activities or operations". They will also generally recommend voting against shareholder proposals that seek to increase environmental disclosure and reporting, or compliance with international environmental conventions or environmental principles (GL, 2025[96]).

To develop their policies, ISS undertakes an annual policy formulation process: a survey of institutional investors and companies about their preferences, a roundtable with the industry, and a comment period on draft recommendations, which then leads to the release of final guidelines (ISS, 2024[97]). Similarly, GL also undertakes a global policy survey with inputs from all GL clients and market stakeholders with the aim to align voting policies with prevailing market sentiment on a range of issues (GL, 2024[98]).

In October 2025, GL announced that it plans two major changes over the next two years. First, it will help clients develop customised voting frameworks that align with their individual investment philosophies and stewardship priorities, moving beyond standard policies. Second, GL will shift from a single house policy to offering multiple research perspectives that reflect a broader range of client viewpoints – from those more aligned with management to others focussed on governance fundamentals. Beginning in 2027, clients will be able to access one or more of these perspectives to inform their proxy voting decisions (GL, 2025[99]).

Some jurisdictions have reformed the frameworks that govern proxy advisors (Table 3.3). For example, in 2011, France issued Recommendation No. 2011-2006 regarding proxy voting advisory firms. The critical elements recommended by the Autorité des Marchés Financiers (AMF) focus on transparency, including that a voting policy would ideally be established and issued by proxy advisors. AMF also recommends proxy advisors to submit draft reports to companies seeking their comments, but where this is not possible, proxy advisors should state in their report that it was not submitted for review to the company and why. Furthermore, AMF recommends that proxy advisors should implement measures to address conflicts and ensure ethical behaviour (AMF, 2011[100]).

In terms of internal policies, both GL and ISS have policies managing and disclosing conflicts of interest, as well as codes of ethics. For example, GL's conflicts policy sets out their processes to safeguard and mitigate when actual or perceived conflicts arise, and they also have a Compliance Committee to quickly address all potential conflicts. Both GL and ISS are signatories to the Best Practice Principles for Providers of Shareholder Voting Research & Analysis, which requires them to have and publicly disclose a conflicts policy, among other obligations relating to service quality and communications (GL, 2024[101]; ISS, 2024[102]; Best Practice Principles Group, 2019[103]). They also report against several stewardship codes, for example, from Japan, Korea, and the United Kingdom, as well as the European SRD II (ISS, 2024[102]; GL, 2024[101]; GL, 2024[104]).

Japan's Stewardship Code explains proxy advisors contribute to institutional investors' stewardship activities and specifically recommends in Principle 8 that proxy advisors should "endeavour to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfil their stewardship responsibilities". For instance, this may be by putting a conflicts of interest policy in place and ensuring the accuracy of company information that is the basis for their recommendations, in the circumstances where a company requests to confirm that information that the proxy advisor is using is accurate (FSA, 2025[71]).

Similarly, the 2017 **European** SRD II requires proxy advisors to be subject to a code of conduct by Member States and that they should "disclose certain key information relating to the preparation of their research, advice and voting recommendations and any actual or potential conflicts of interests or business relationships that may influence the preparation of the research, advice and voting recommendations" (EU, 2017[105]).

In the **United States**, the SEC Proxy Rules Governing Proxy Voting Advice (Rule 14A-2(B)(9) requires, among other transparency-related rules, proxy advisors to disclose any material conflicts of interest.

Table 3.3. Comparison of regulatory frameworks for proxy advisors

Law	Comply or explain	Code/Recommendation (no comply or explain)	No requirement	"–" indicates no requirements identified

	Australia	Brazil	France	Japan	South Africa	United Kingdom	United States
Stewardship regulatory framework	**Public**, Corporations Act 2001; Regulatory Guide 181	–	**Public**, Monetary and Financial Code; Proxy voting advisory firms; SRD II	**Public**, Principles for Responsible Institutional Investors: Japan's Stewardship Code	–	**Public**, The Proxy Advisors (Shareholders 'Rights) Regulations 2019	**Public**, SEC Rules on Proxy Voting Advice
Disclosure of their proxy voting policies	No requirement	–	Recommendation	Comply or explain disclosure	–	Law for the disclosure of voting policies No requirement for actual voting	Law (upon client's request)
Setting policy and disclosure of conflicts of interest policy	Law	–	Law	Comply or explain disclosure	–	Law	Law
Confirm/provide certain information to subject companies	No requirement	–	Yes, or explain why not	Yes, or explain why not	–	Yes, or an explain why not	No requirement

Source: Based on OECD (2023[64]), *OECD Corporate Governance Factbook 2023*, https://doi.org/10.1787/6d912314-en; Tables 3.11 and 3.12.

4 Policy considerations

This chapter outlines policy considerations, including on deeper co-operation on stewardship standards, greater convergence in sustainability-related engagement frameworks, and clearer rules to both constrain and legitimise large investors' influence on corporate behaviour.

Institutional investors hold a substantial proportion of equity in listed companies globally and, therefore, are well-placed to promote sound corporate governance practices and the management of sustainability-related risks and opportunities, not only through capital allocation but also by engaging with companies on these matters. While exiting the investment in a company may have little effect if other investors are willing to buy securities issued by the same company, engagement by some large shareholders may be able to influence important change in the strategies of companies.

As of 2024, asset managers hold significant equity stakes across both advanced and emerging markets (Figure 1.1). The institutional investor ownership landscape is characterised by high levels of concentration, although the degree varies across markets (Figure 1.2). The assets under management of the largest 20 asset managers have increased 84%, from USD 30 trillion in 2015 to USD 56 trillion in 2024 (Figure 1.4). The largest institutional investors may potentially play a role in addressing some of the world's collective action challenges. Reducing GHG emissions is one of these challenges that could be addressed, and some institutional investors have been moving toward this goal. However, how far in that direction investors may move and whether they should engage in other sustainability-related matters raises some complex questions.

Policymakers and market initiatives have dealt with the increasing importance of institutional investors. For instance, regulation requiring institutional investors to report on voting policies and actual engagement activities to their beneficiaries has become common (Section 3.2). A soft law approach is widespread in many jurisdictions, primarily through establishing stewardship codes (Section 3.3). There are, however, two significant questions that have remained unresolved. First, how to mediate conflicts between the expectations and information needs of investors and companies based in different jurisdictions (in almost 80% of OECD, G20 and FSB economies, as shown in Figure 1.3, the equity share in listed companies held by domestic institutional investors is smaller than that of their non-domestic counterparts). For instance, while institutional investors seek sustainability-related material information, they should ensure disclosure does not place unreasonable costs on companies (Section 2.5). Second, what disclosure rules should apply to the largest institutional investors to ensure they fulfil their fiduciary duties, respond to their clients' sustainability concerns, and do not create economic inefficiencies (Section 3.4).

Given the abovementioned questions, further co-operation in identifying good policies and practices for the development of voluntary and regulatory frameworks that foster effective stewardship could be beneficial. First, greater convergence of frameworks for sustainability-related engagement could aid greater alignment between environmentally and socially concerned asset owners and asset managers, both when initially awarding mandates and during the contractual agreements, supporting improved efficiency and integration of capital markets. Second, effective frameworks for engagement could relieve the impression that large institutional investors have undue influence to establish de facto environmental or social rules for the corporate sector (Section 2.5), but also give investors legitimacy to act on financially material issues and avoid backlash when doing so is in line with their fiduciary duty.

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Annex A. Methodology

Figure 1.1 includes all OECD, G20 and FSB members, except for Costa Rica and Russia. The category "Asset managers" includes investors identified as: *Bank, Bank Branch, Broker, Brokerage, Extinct, Fund of Funds Manager, Fund of Hedge Funds Manager, Hedge Fund, Hedge Fund Manager, Investment Adviser, Investment Managers, Market Maker, Mutual Fund Manager, Mutual Fund-Closed End, Mutual Fund-ETF, Mutual Fund-Open End, Private Equity, Private Equity Fund/Alternative Inv., Real Estate Manager, Research Firm, Stock Borrowing/Lending, Trust/Trustee, Umbrella Fund, Venture Capital Fund, Venture Capital/Private Equity*. The category "Asset owners" includes investors identified as: *401k, Bank Investment Division, College/University, Family Office, Foundation, Foundation/Endowment Manager, Insurance Company, Public Pension Fund, Pension Fund, Public Pension Fund Manager, Pension Fund Manager, Private Banking/Wealth Management, Sovereign Wealth Fund, Sovereign Wealth Manager*.

Figure 1.4 includes the assets under management of the largest asset managers globally. "Asset managers" in this figure include the following institutions: (i) firms identified solely as "Asset Managers" by the Industry Classification Benchmark in LSEG (thus excluding custodian banks and other financial institutions whose main business is not asset management); (ii) Vanguard Group and Fidelity, for which information was collected separately from their webpages and financial press articles; (iii) all other financial institutions excluding custodian banks. The values include assets under management in open-end and exchange-traded funds, as in the two following figures, and it also embarks assets in closed-end funds and other vehicles. The values are adjusted by the 2024 US Consumer Price Index.

Figure 1.5 includes the total assets under management of open-end funds and funds by the end of 2024. Funds were classified as index or non-index based on their categorisation by Morningstar Direct. Panel A presents the evolution of total AUM of index and non-index funds. Panel B presents the distribution of AUM among asset classes for index and non-index funds at the end of 2024. This distribution was computed based on classification in asset classes by Morningstar Direct. The figure includes all OECD, G20, and FSB members, except Costa Rica, Czechia, Hungary, India, Poland, the Slovak Republic, Slovenia and Russia.

Figure 1.6 includes the total assets under management of open-end funds and exchange-traded funds by countries at the end of 2024. Funds were classified as index or non-index based on their categorisation by Morningstar Direct. The figure includes all OECD, G20, and FSB members, except Costa Rica, Czechia, Greece, Hungary, India, Poland, the Slovak Republic, Slovenia and Russia.

Figure 1.7 includes the total assets under management of open-end and exchange-traded funds. Funds were classified as having sustainability objectives or criteria based on Morningstar Direct considering them to be ESG intentional investments. This is the case for a fund if in the prospectus or other regulatory filings it is described as focussing on sustainability, impact investing, or environmental, social or governance factors. Funds must claim to have a sustainability objective, and/or use binding ESG criteria for their investment selection to be included. Funds that employ only limited exclusions or only consider ESG factors in a non-binding way are not included. The figure includes all OECD, G20, and FSB members, except Costa Rica, Czechia, Hungary, India, Poland, the Slovak Republic, Slovenia and Russia.

Notes

[1] The Code was developed by the Australian Council of Superannuation Investors (ACSI), whose members include Australian and international asset owners and institutional investors.

Institutional Investor Engagement and Stewardship

Institutional investors play a central role in global capital markets as the largest holders of listed company equity. Their holdings confer outsized influence over corporate governance, capital allocation and market behaviour. Through active stewardship, they can sharpen price discovery, bolster market integrity and encourage responsible management that supports long-term value creation. Their engagement on environmental and social matters may also reshape expectations for corporate strategy and disclosure. This report assesses the scale and nature of that influence, examining how institutional investors interact with listed companies and how effective stewardship can enhance the efficiency and resilience of capital markets.

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