To,
Securities and Exchange Board of India (SEBI)
Via email to: esgdisclosures@sebi.gov.in and krishnarb@sebi.gov.in

16th November 2021

Sub: Comments on Consultation Paper on Introducing Disclosure Norms for ESG Mutual Fund Schemes

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our comments to the **Consultation Paper on Introducing Disclosure Norms for ESG Mutual Fund Schemes**.

IAIP is an association of over 2000 local investment professionals who are CFA charter holders and about 6000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 170,000 members in over 165 countries. In India, the community of CFA charter holders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavor to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

The recommendations put forth in the **Consultation Paper on Introducing Disclosure Norms for ESG Mutual Fund Schemes** in India, if implemented will play a great role in protecting the interest of investors and market participants while also addressing issues of greenwashing of ESG funds in India. We support SEBI's effort to protect investors and further enhance capital market integrity and efficiency by establishing disclosure requirements that are relevant and useful to investors and that allow investment products to fairly compete on equal terms.

We also believe that several of the recommendations in SEBI's consultation paper related to investment product disclosures are well-aligned with CFA Institute's recently released **Global ESG Disclosure Standards for Investment Products,** with similar aims to establish ethical standards for the fair representation and full disclosure of how an investment product considers ESG issues in its objectives, investment process, and stewardship activities.[1]

In addition to disclosures, SEBI should clearly emphasize the need for ESG expertise, as ESG investing develops in India. Indian AMCs increasingly consider ESG not only for creating investment strategies, but also as an investment discipline, and there is a need for people with expertise. At a minimum, fund managers and research analysts would need to undergo trainings and ESG certifications from reputed global and national educational institutions, to be able to implement these strategies effectively, and demonstrate knowledge.

In addition, AMCs may also need to hire ESG professionals in their responsible investment teams, with expertise in environment and social domains, to complement the experience in incorporating governance issues.

Finally, given the regulatory developments globally and the growing needs around climate related disclosures, SEBI should also consider mandating disclosure standards around climate related disclosures (preferably in line with TCFD recommendations) and mandating policies/ procedures at AMC level to manage their carbon exposure/ footprint.

[1] *For more information, please refer to our page - Global ESG Disclosure Standards for Investment Products (cfainstitute.org)*

The suggestions/ comments provided by CFA Society India in this response paper have been developed through a collaborative process guided by volunteer investment professionals and further informed by roundtable/ consultation sessions with ESG fund managers in India.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by us and other practitioners and request to be included in the deliberation process.

A. Details of our Organisation:

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B. Key Contributors:

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C. Suggestions/ Comments on Key Response Questions:

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<table>
<tr><th>Key Questions for Responses</th><th>Suggestions/ Comments</th></tr>
<tr><td>a. Whether SEBI should mandate the proposed disclosures for ESG schemes?</td><td>Yes, the proposed disclosures should be mandated to all ESG mutual fund schemes in India.

• The recommendations put forth in this consultation paper would help address issues of greenwashing, help bring more transparency for investors and help investors/ advisors compare and select products aligned to their needs. The recommendations will also help asset managers to better communicate the features of their products and address RFP requests/ due diligence questionnaires from institutional investors, while enabling them to directionally align themselves with global ESG disclosure standards such as SFDR, and the CFA Institute Global ESG Disclosure Standards for Investment Products.

<u>Additional points for SEBI to consider for final recommendations:</u>

• SEBI should consider structuring the recommendations provided in this consultation paper clearly into firm level disclosures, product level disclosures and periodic fund disclosures. Please refer to section D of this response paper which classifies the current recommendations of the consultation paper under these three broad headings.

• SEBI should recommend AMCs to have independent third-party verification of the ESG disclosures and audit of the investment processes followed by the ESG funds (incl. esg data collection, use of esg data in the investment process). Verification procedures provide investors comfort that AMCs are following the processes that are disclosed. This is especially critical since ESG has a high degree of subjectivity.

• SEBI should recommend AMCs with ESG funds to have a dedicated responsible investment team with full time ESG professionals and encourage AMCs to appoint a dedicated ESG person responsible for implementation of the ESG/RI policy across fund(s), and such person could be subject to supervision of the Board of the AMC for ESG and RI initiatives of the Firm.

• SEBI should consider including guiding principles for disclosures for ESG funds to follow (principles such as comparability, simplicity, reliability, consistency, completeness, and accessibility).

• SEBI should consider providing fund managers a standard disclosure format for ESG funds to follow on an optional basis.</td></tr>
<tr><td>b. Whether the proposed disclosures are adequate or any additional disclosures should be mandated?</td><td>Please refer to section D of this response paper which provides detailed suggestions/ comments around additional disclosures for ESG funds.</td></tr>
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Key Questions for Responses	Suggestions/ Comments
c. Whether Responsible Investment Policy of AMCs should be revised to contain a clause that from October 01, 2022, AMCs shall only invest in securities which have Business Responsibility and Sustainability Report (BRSR) disclosures?	• **NO, this clause should be a recommendation to AMCs and not mandatory.** The inclusion of this clause will restrict the investment universe available to ESG funds in India and their ability to evaluate new investment opportunities or actively engage with companies with no BRSR disclosures for improving their sustainability profile. • SEBI can consider mandating AMCs to disclose the number of companies or weight in portfolio in such companies that do not have BRSR disclosures and detailing the investment rationale and investment process around selection and inclusion of such companies in their portfolio. • SEBI can also recommend AMCs to utilize their power of active ownership & stewardship to engage with their investee companies to improve their sustainability disclosures. The gaps in sustainability disclosures by investee companies should be handled separately by the regulators through appropriate regulations.
d. Whether the existing investments in the schemes for which there are no BRSR disclosures should be grandfathered by SEBI for a period of one year i.e., till September 30, 2023?	• **NO, this clause should only be a recommendation.** • SEBI can recommend AMCs to utilize their power of active ownership & stewardship to engage with their existing investee companies to improve their sustainability disclosures. The gaps in sustainability disclosures by investee companies should be handled separately by the regulators through appropriate regulations.
e. Whether the general obligations mentioned para 4 above cast on AMCs/AMFI for ESG schemes be mandated?	• **Yes, we agree** with mandating the general obligations mentioned in para 4 on AMCs/ AMFI.
f. Whether the same set of disclosures can be mandated for ESG schemes under debt category whenever allowed? Whether any additional set of disclosures required for debt ESG schemes?	• **Yes,** the same set of disclosures can be mandated to ESG schemes under debt category investing in corporate debt issued by listed companies and their subsidiaries. Disclosure recommendations will need to be reviewed and revised for ESG schemes under debt category investing in sovereign bonds and other non-corporate instruments. • For ESG debt schemes investing in labeled green bonds or certified climate bonds, AMCs should provide additional disclosures around selection processes of underlying bonds, allocation targets to such green bonds and details on labels/ certification of such underlying green bonds in the portfolio. • ESG considerations for fixed income asset class are slightly different from those of equities and hence SEBI will need to consider appropriate additional disclosures for debt ESG schemes as and when required in the future.

Please refer to the next section (section D) of this response paper which structures the recommendations provided in the SEBI consultation paper clearly into firm level disclosures, product level disclosures and periodic disclosures and provides detailed suggestions/ comments around additional disclosures for ESG funds (as part of response question (b).

D. Suggestions/ Comments on Proposed Disclosures:

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Sr. No.	Consultation paper Para	Recommendations provided in the consultation paper (Categorized)	Suggestions/ Comments
FIRM LEVEL DISCLOSURES			
1	Para 3 (A) (i) and Para 3 (A) (iii)	**All AMCs will be required to have a Responsible Investment Policy incorporating aspects of ESG investing.** • The investment objective shall be as per the Responsible Investment Policy of the AMC. • The investment policy of AMCs should encompass processes to review the investments during a certain period and the strategy pursued. • The strategy should include the broad universe of the companies in which they intend to invest. • The investments should be designed to generate a beneficial ESG/sustainability impact alongside a financial return. • AMC should clearly state the intended 'real world' outcome in qualitative terms, especially for strategies related to Integration, Impact Investing and Sustainable Objectives. • RI Policy of AMCs should be revised to contain a clause that from Oct 1, 2022, AMCs shall only invest in securities which have BRSR disclosures. Existing investments in schemes for which there are no BRSR disclosures would be grandfathered by SEBI for a period of 1 yr. i.e., till Sep 30, 2023. Schemes which invest in overseas securities would choose any global equivalent of the BRSR which will be specified by AMFI.	• SEBI should harmonize the information mandated on the website with information required in the SID as part of the same RI Policy and make the same information available on both SID and the website of AMCs. • SEBI should consider removal of the clause (in grey) restricting investments only in companies with BRSR disclosures. • The RI policy should provide a link to the AMC's stewardship code and conflict of interest policy. • The RI policy should provide disclosures if the AMCs are signatories to global sustainability related organizations (e.g. PRI signatory, CDP) • The RI Policy should have provisions for AMCs to provide to investors an annual sustainability report.
2	Para 3 (B) (iv)	**AMCs should disclose on their website the following information covering various aspects of ESG investing such as:** a) Source of ESG information of underlying investments b) Investment process and philosophy c) Key ESG factors to be considered in decision making d) Due Diligence methodology and its limitations e) Engagement policies including stewardship f) Monitoring of investments and evaluation.	

Sr. No.	Consultation paper Para	Recommendations provided in the consultation paper (Categorized)	Suggestions/ Comments
PRODUCT LEVEL DISCLOSURES			
1	Para 3 (A) (i)	**Name of Investment Product/ Scheme:** The name of the scheme should accurately reflect the nature and extent of the scheme's ESG focus taking into account investment objective and type of strategy followed.	• Agree, no comments.
2	Para 3 (A) (ii)	**Investment Objective:** Investment objective shall provide transparency about the nature and extent of the scheme's ESG related investment objectives. Detailed objectives of the scheme need to be laid down stating how it aims to achieve this objective through its investment policy and strategy including the approach used for screening companies	• AMCs should disclose financial objectives and sustainability/ ESG objectives separately to the extent feasible.
3	Para 3 (A) (iv) and Para 3 (A) (iv) (h)	**Investment Strategy/ Investment Approach:** • AMC shall disclose the type of strategy followed by scheme, with regards to sustainability/ ESG characteristics which merit the nomenclature of an ESG fund. • Decision-making process for investing should include disclosure on use of proprietary or third party ESG Scoring Process / Methodology. • The disclosure should broadly indicate the above including the due diligence on any data, research and analytical resources it relies upon when using proprietary methodology to be confident that it can validate the ESG/ sustainability claims that it makes.	• AMCs should disclose the investment universe used for portfolio construction • AMCs should disclose the risks and limitations of the ESG data used and how those risks and limitations are managed. • AMCs may disclose if there has been a third-party independent verification of the investment processes and due diligence mechanisms of the ESG data.
4	Para 3 (A) (iv) (a)	**Investment Strategy: Screening/Exclusions:** The strategy should specify I. the characteristic / type of exclusion (Adverse impact, Controversy, Faith) II. threshold or condition for exclusion, and **III.** reference, where applicable, to any law/ regulation/ third-party standard/ guideline/ framework used in the establishment or evaluation of the criterion.	• Characteristic / type of exclusion can include "Industry sectors". • AMCs should also disclose exceptions to the exclusion criteria, if any.
5	Para 3 (A) (iv) (b)	**Investment Strategy: ESG Integration:** Explicitly consider ESG related factors that are material to the risk and return of the investment, alongside traditional financial factors, when making investment decisions	• AMCs should disclose how financially material ESG information is typically incorporated into investment decisions and disclose exceptions, if any.

Sr. No.	Consultation paper Para	Recommendations provided in the consultation paper (Categorized)	Suggestions/ Comments
PRODUCT LEVEL DISCLOSURES (Contd..)			
6	Para 3 (A) (iv) (c)	**Investment Strategy: Best-in-class/ Positive Screening:** Aim to invest in companies and issuers that perform better than peers on one or more performance metrics related to ESG matters. The details/specifics of the metrics should be disclosed.	• AMCs should also disclose the stock selection process under best-in-class/ positive screening method and provide portfolio level allocation targets basis ESG characteristics, if any.
7	Para 3 (A) (iv) (d)	**Investment Strategy: Impact Investing:** • How the Fund Manager intends to achieve the impact objective. • Provide methodology used to assess the effect that investments have, or may have, on environmental or social or governance issues. • Describe the process for identifying and avoiding, mitigating, or managing adverse effects that the scheme or underlying companies' activities have, or may have, on environmental or social issues. • The fund should seek a non-financial (real world) impact and evaluate if that impact is being measured and monitored.	• AMCs should additionally disclose the stakeholders who will benefit from the impact objective, proportion of the portfolio committed to the impact objective, the time horizon over which these objectives are expected to be attained, trade-offs with other objectives and the risks that could hinder the attainment of stated impact objective.
8	Para 3 (A) (iv) (e)	**Investment Strategy: Sustainable Objectives** • Aim to invest in sectors, industries, or companies that are expected to benefit from long-term macro or structural ESG-related trends. • Describe the focused objective including rationale for focusing on that objective.	• AMCs should additionally disclose the proportion of the portfolio committed to the sustainable objective and the risks that could hinder the attainment of mentioned sustainable objective.
9	Para 3 (B) (i)	**In case of Impact Investing and Sustainable Objective investment strategy, Mutual Funds should assess, measure and monitor:** a) the sustainability-related product's compliance with its investment objectives and/or characteristics. **b)** the sustainability impact of its portfolio to the extent applicable to the portfolio's stated design; and **c)** sits sustainability-related performance. The sustainability impact of a product's portfolio refers to the effect of the product's portfolio holdings on environmental, social and governance issues.	• AMCs should additionally disclose how progress toward the attainment of the impact or sustainable objectives is intended to be reported to investors.

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PRODUCT LEVEL DISCLOSURES (Contd..)			
10	Para 3 (B) (ii)	**Stewardship Activity Disclosures:** • Stewardship policy reflecting that the exercise of voting rights is in accordance with the objectives of the scheme. • Disclosures about policy on stewardship and shareholder engagement and past stewardship and shareholder engagement records.	• AMCs should additionally disclose the types of stewardship activities typically undertaken for the investment product and the ESG issues typically considered when undertaking the stewardship activities.
11	Para 3 (A) (vi)	**Asset Allocation/ Portfolio Level Allocation Targets:** • As per extant regulations these schemes fall under thematic sub-category and so a minimum of 80% of total assets of the scheme shall be invested in securities following ESG theme. Hence, these guidelines would apply only to the portion of investment towards ESG theme. • However, it is proposed that the residual portion of the investment should not be starkly in contrast to the philosophy of the scheme from the theme. • AMC shall endeavor to have a higher proportion of the assets under the ESG theme and make suitable disclosures	• The disclosure guidelines should be applicable on 100% of the portfolio and not just on the minimum allocation. ESG characteristics and outcomes should also be reported at 100% portfolio level. However, investments in derivatives and in money market instruments should be kept outside the purview of the ESG disclosures.
12	Para 3 (A) (vii)	**Benchmark:** • The scheme should be continuously aligned with each of the environmental, governance and social characteristics followed by the benchmark. • The website of the respective mutual fund should also provide a link to the index methodology.	• There are substantial differences in the portfolio construction methodology of available Indian ESG benchmarks vis-à-vis ESG funds. It will be difficult for ESG funds in India to continuously align fund ESG characteristics with benchmark ESG characteristics in the absence of more suitable ESG benchmarks.
13	Para 3 (A) (v)	**Material Risks:** • Disclosure of unique risks that arise from a scheme's focus on sustainability. • Disclosure of measures taken to mitigate risks related to green washing and risk of reliance on third party scores, if any, given the dispersion in scores across providers	• No further comments
14	Para 3 (A) (viii)	AMCs can provide suitable disclaimers, if any, for aspects related to the above disclosures in the SIDs	• No further comments

Sr. No.	Consultation paper Para	Recommendations provided in the consultation paper (Categorized)	Suggestions/ Comments
PERIODIC FUND DISCLOSURES			
1	Para 3 (B) (i)	**Periodic Monitoring of Investments and Stewardship Activity Disclosures:** • AMCs should monitor and evaluate the investments in terms of Key Performance Indicators, real world outcomes, active engagement, and stewardship activities with investee companies. • ESG Funds to disclose on ESG engagement and stewardship activities on material/relevant ESG issues at the completion of every financial year	• SEBI should specify period for strategic and financial performance review that AMCs need to follow and how frequently it intends to report out portfolio level ESG outcomes. • KPIs included in periodic disclosures should include portfolio level ESG characteristics compared against the ESG benchmark. • Stewardship disclosures should also include measurable outcomes on portfolio ESG characteristics over a 3 to 5-year engagement period.
2	Para 3 (B) (iii)	**AMCs shall disclose the following in simple and comprehensible language:** a) The contribution to 'positive environmental change', an investor might reasonably expect b) The various ESG engagement and stewardship activities carried out during the financial year. c) Link to BRSR disclosure for each security in the portfolio or global equivalent in case of overseas securities, wherever available. **d)** Periodic reporting relating to whether a sustainability-related product is meeting its sustainability-related investment objectives or characteristics, including the product's sustainability-related performance and holdings, during the applicable time period.	• SEBI should consider removing the clause marked in grey which recommends AMCs to provide the link to BRSR disclosures for each security in the portfolio. This will lead to unwanted compliance burden on the AMC.