To,

30th September, 2022

Securities and Exchange Board of India
Via email to: pradeepr@sebi.gov.in; nikhilc@sebi.gov.in; and vikramj@sebi.gov.in;

Sub: Comments on Consultation Paper on Green and Blue Bonds as a mode of Sustainable Finance

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 Green and Blue Bonds as a mode of Sustainable Finance.**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders 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 charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour 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 for Consultation Paper on Green and Blue Bonds as a mode of Sustainable Finance is a positive step. We appreciate the SEBI's effort to strengthen the framework for Green bonds by amplifying the definition of green bonds and enhancing disclosures. We have some suggestions on refining the proposed mechanism, which we have put forth in our comments.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by 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:

Name of Entity/Person: Indian Association of Investment Professionals (CFA Society India) **Contact Number & Email Address:** +91 99021 17087 (Ravi Gautham, CFA);advocacy@iaipirc.org			
Category: Association of Investment Professionals			
Sr. No.	**Paragraph**	**Suggestion/Comments**	**Rationale**
1.	5.10. Most of the green bonds issued by Indian issuers are listed on offshore exchanges. Informal consultation with the industry participants attribute this to: - Lack of demand for such bonds among the Indian investors - Favourable pricing in overseas market. 6.3. b Please offer comments on whether there are any additional policies/ schemes in line with the above objective, if any?	We appreciate the SEBI's effort to strengthen the regulatory framework for the green securities. We also understand the concern regarding the lack of demand or development of domestic green bond market. We have the following suggestions/observations which may help in domestic market growth: 1. **Sovereign Green bond issuance** – In our view, this can be a watershed movement in developing the domestic Green bond market. 2. **Incentivize the issuers and investors** – Incentives are a strong force for developing any product or market. We have seen this be the case with several products where the market has only developed in the initial stages when some incentive was provided by the Government or regulator. Some suggestions in the regard are as below: • The Government or regulator can look to defray some costs of getting audit or impact reporting done for Green bond issuances. • Investors may be encouraged to invest in Green bonds by the	1. Sovereign Green Bond issuance can help on several fronts as below: • Provide a pricing benchmark to issuers and investors • educate the market participants about green bonds • Bring new set of investors to the Green bond market • An ongoing sovereign green bond program can, over time, scale up the presence and expertise of intermediaries, which could catalyze market development 2. We have seen examples of regulators defraying some costs to incentivize green bond issuers. For example, Monetary Authority of Singapore ("MAS") also provides a Sustainability Bond Grant Scheme to defray

		regulators with incentives or regulations i.e. Banks are mandated to do Priority Sector lending, so Green bonds can be made a sub-category there. Insurance companies are mandated to do certain percentage of investments in Infrastructure, so again here Green bonds can be made a sub-category. 3. **Taxonomy** – One of the main barriers to increasing the supply of green debt instruments is the identification of green assets and projects, due to the lack of awareness around what these are and how to identify them and often the lack of enough green projects on the ground. Definitions for green assets are key to safeguarding the market from the risk of 'greenwashing', supporting governments in targeting their actions against climate change and enabling financial market players to know which investments to focus on if they are to get into the sustainable finance playing field.	the cost of external reviews to demonstrate the alignment of sustainability bonds with international standards. 3. In addition to providing clarity to investors and other stakeholders about the green benefits of a given asset, taxonomies following can greatly facilitate their comparability and interoperability across different firms and markets – including emerging markets.
1.	9.8. b. Whether introducing coloured bonds (blue bonds for blue economy, yellow bonds for solar power) will help increase channels for funding to green projects?	We understand that introduction of colored bonds, can be an opportunity for Indian markets to keep pace with the global developments. There is significant interest in blue and yellow bonds from foreign investors in Australia, new Zealand and EMEA But, we believe that as the Green bonds market itself is very nascent in India, adding more colored bonds i.e. blue, yellow etc. does not help further. This increase in colors should only be done once the green bond market takes off, otherwise we are just creating more categories without any increase in channels of funding. If there is actually any funding requirement for such bonds, its better that instead of a different color, we broaden the green bonds definition and	This may be a good initiative but this can actually be included once the market develops further for green bonds. The uniformity in regulations if these are included as part of green bonds, will help to bring in more issuers and investors.

		include these bonds there, so that the regulations are uniform and there is no further complexity for issuers.	
3.	**10.(b). Utilisation of issue proceeds** Clause 1 of Chapter IX of SEBI Circular dated December 17, 2021 In addition to the existing disclosure requirements, we may include that, the issuer shall disclose the intended types of temporary placement for the balance of unallocated net proceeds.	We see that SEBI has given investors some flexibility to temporarily park the unallocated funds raised through green bond issuances. We appreciate this step as it will provide some flexibility to issuers and increase transparency for investors. We would also suggest that SEBI should allow a certain small percentage of issue as "Flexibility pocket" to be allowed to deploy in other general business activities to provide certain flexibility to investors.	Ease of issuance and flexibility to utilize proceeds can be an incentive to develop the domestic market in India.
2.	**10.(g). Disclosure Requirements** Clause 1 of Chapter IX of the SEBI circular dated December 17, 2021 In order to enhance disclosure requirements for third party review and certification of projects and processes with regard to issues of GDS, Clause 1.5 of Chapter IX of the SEBI circular dated December 17, 2021 may be amended as follows: **"Appointment of third party reviewers/ certifiers/ auditors:** *An issuer may appoint external reviewers/ certifiers/ auditors for purposes including, but not limited to, (i) assessment of alignment of the objectives of the green bond to be issued with the clause XX of this circular (ii) post-issue management of use of proceeds from the green*	We agree that the external review or audit requirement should be optional for issuers. But, we would suggest that we need to strike a balance between the audit requirement of investors and the costs associated with audit for issuers. As suggested above, we believe that providing incentives to issuer to get external review or audit of the green bond issue will help the market grow by increasing the transparency and building trust. For this, we have seen internationally regulators have defrayed some part of the cost of audit to develop the market. Further, encouraging and incentivizing external review will help to develop the external review ecosystem by bringing in more institutions or agencies interested in providing such services to issuers. We would also suggest that there should be a supervisory body that registers, supervises the external reviewers.	We strongly believe that audit or external review is a great mechanism to build trust and transparency in a nascent green bond market. But, we need to keep in mind the additional costs involved. So, we need to find a middle path which can be adopted to develop the market and invite more issuers to the market. The supervisory body of reviewers will help to bring in checks and balances to prevent green washing. External reviews are increasingly becoming mandatory across jurisdictions and certainly for most green bond and sustainability segments on exchanges. Requirements are being put in place for local verifiers and other external reviewers. This will slowly make sure issuers in

	bond (iii) verification of the internal tracking and the fund allocation from the Green Bond proceeds to eligible Green Projects etc. Such appointment is optional for the issuer. However, any such appointment of reviewer/ certifier/ auditor shall be disclosed in the offer document(s). Such external reviews shall also be disclosed on the stock exchanges where the bonds are listed or proposed to be listed.”		India also align themselves with international requirements gradually.
3.	**h. Disclosure Requirements** Clause 2 of Chapter IX of the SEBI circular dated December 17, 2021. In addition to the existing disclosure requirements for measurement of impact reporting, the following may also be included: a. “**Impact Reporting**: “An issuer, or any agent appointed by the issuer shall disclose information pertaining to reporting of the environmental impact of the projects financed by the green debt securities in the offer document and/or as a continuous disclosure. Reporting standards or taxonomies followed by the issuer with regard to reporting of environmental impact may also be disclosed, if any. Such disclosure is optional and is at the part of issuer and may be done on a project-by-project basis.”	We believe impact reporting is an integral part of green bond ecosystem. We suggest that the impact reporting needs to be made mandatory. We would also suggest that an independent review of the selection criteria for the projects financed by green bonds and of the actual allocation of funds, provided by a so-called “second party opinion”, reassures investors that the green bond will meet their requirements. Opinions of this kind assist issuers who are actively seeking to place their green bond issues with sustainability-oriented investors, in particular.	We believe that transparency is the cornerstone of the green bond market, impact reporting will make sure that investors can keep track of the impact from the green bond proceeds.

4.	11. **Greenwashing** Please offer comments on whether any additional regulatory/ technical solutions against greenwashing?	There is broad consensus that sustainable finance is a key element in supporting the transition to a more sustainable economy. Arguably, less attention has been paid to how taxonomies have to be designed to achieve this goal in the most effective way. We strongly recommend that India develops a well-defined taxonomy for green issuances. Well-designed taxonomies can not only increase investor interest, but also help to raise market transparency, by reassuring investors that their funding is effectively contributing to defined sustainability goals. Market integrity, in turn, helps to sustain longer-term investor interest in sustainable finance markets, as well as prod firms that are not so sustainable to improve their performance.	The green bond market developed as a voluntary market, with issuers disclosing information to investors following international best practice or their own practices. A taxonomy provides a list of eligible assets with thresholds and metrics as necessary. Harmonizing eligible assets and metrics across the market is the more important aspect of taxonomy development, as the taxonomy will provide guidance to both issuers and investors in the relevant jurisdiction.

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Ravi Gautham, CFA at +91 99021 17087 or at advocacy@iaipirc.org.

Sincerely yours,
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Chairperson - Research and Advocacy Committee
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