



CFA Society
India

India Insights

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Thought Leadership in Action



EDITORIAL

We are delighted to present the second edition of the 'India Advocacy Insights (IAI)'. This edition shares the India Advocacy Team's recommendations for SEBI's draft consultation papers on introducing "Accredited Investors / AI" concept in India, Independent Directors, Promoter Group regulations and Draft RBI (Credit Derivatives) Directions, 2021.

It is encouraging that SEBI has very quickly endorsed the introduction of AI regulations that can permanently expand the local market for private offerings of securities, advisory and AIF products. The removal of fee caps between AI and Advisors addresses one of industry's key concerns and aligns SEBI's policy for a thriving Professional Advisory market.

We also recommended to the regulator's review of Independent Director's regulations, which is an opportunity to strengthen the fiduciary duty of Boards and encourage "truly" independent directors' composition, aligned with minority investors' interests. SEBI's proposed amendments in the "Promoter Group" definition are surprisingly liberal in our view and risk easier passage of special shareholder resolutions in promoter driven firms. The team also provides comments on the RBI's recent directive for deepening the Credit Derivatives Market by reviewing security, counterparty and participant level aspects.



We published the second edition of the "Investors' guide to shareholder meetings", which serves as a reference to better understand the nature of resolutions and adequately prepare to actively engage at virtual AGM events.

The magazine concludes with an update of the Dvara Research Working Paper webinar hosted by the Society to discuss their thesis for transparency of Indian banking sector's public risk disclosure regime. This is followed by the full list of other webinars such as Forensics Accounting and various Society activities.

Please do subscribe to the magazine by following CFA India Society on social media or the [website](#) to know more about our ongoing research across topics in finance and upcoming academic seminars for investment professionals.

Best Regards,

Volunteer Editors

Shamit Chokshi, CFA

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INVESTORS' GUIDE TO SHAREHOLDER MEETINGS IN INDIA



SECOND EDITION

AN INVESTOR'S GUIDE TO SHAREHOLDER MEETINGS IN INDIA

Rights, Rules, And Responsibilities



Annual general meetings (AGMs) date back to the 19th century. They provide a platform for direct participation by shareholders in the affairs of the company, and hold the directors to account through voting, Q&A, and discussion.

Critics see AGMs as a relic that no longer serves its purpose. In India, only a small fraction of shareholders attend AGMs, and less than one-fifth of public non-institutional shareholders cast their votes in proxy resolutions.¹



However, covid-19 has recast the shareholder meetings and its importance in several ways. Virtual AGMs have made it easier for shareholders to participate and ask questions. The pandemic has brought in a wave of new investors – over one third of all demat registrations happened in the past two years. ²Lastly, the importance of transparency and engagement is never higher than during a crisis.

The second edition of the Investor's guide to Shareholder Meetings in India is meant to serve as a reference for shareholders to better understand the nature of meetings and resolutions, so that one can adequately prepare to engage at these events. There are full of practical suggestions, including how to navigate virtual AGMs, and rules of etiquette for shareholders and companies to conduct effective meetings.

¹ [Tap here for AGMs in times of disruption video](#)

² Ibid.



[Tap here for The Investors' guide](#)



"ACCREDITED INVESTORS" CONCEPT TO BE INTRODUCED IN INDIA, MOVE TO BOOST THE MARKET FOR INNOVATIVE FINANCIAL PRODUCTS, AND ADVISORY SERVICES



SEBI recently approved the concept of "Accredited Investors" (AI) in the Indian Securities Markets. The paper effectively recognizes the buoyant and growing high net worth wealth management market in India, and the need to provide a regulatory light framework for sophisticated investors seeking complex and higher risk rewarding investment opportunities.

The Advocacy subcommittee comprising thirteen CFA Charter holders submitted its technical comments, after due consideration of global practices and investment behaviour in India. The draft paper, once coded into law, allows qualifying natural persons and entities to access private capital markets for securities, funds or other financial products based on their income, net worth or other pre-defined measures of financial sophistication. The proposal allows advisors and investors discretion in commercial terms and fees, which is a big positive shift from the existing over policies.

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- We suggested raising the Net worth criteria to INR 100mn compared to the existing proposal of INR 75 mn.
 - The investor class could be scaled up if the above criteria is relaxed (by at least 25%) for experienced financial market participants including those working in SEBI regulated entities or holding sophisticated qualifications such as CFA Charter holder, RIA, or past money management experience.
 - A realistic possibility in a growing Indian economy is that class of investors witness a sudden rise in personal wealth, especially farmland owners with limited financial markets exposure. In such cases, we advised that the net worth criteria extend over the preceding 3 years before applying the AI status. In a market with relatively lower financial literacy, such a backstop reduces abuse among newly minted qualifying investors. Our recommendations also suggest uniform criteria for residents and non-residents to simplify the rules and operating procedures.
 - SEBI's suggestion for centralized accreditation agency can lead to another tedious KYC record keeping exercise, and it would be interesting to explore if regulated intermediaries or product issuers can directly take the responsibility. The latter could ensure confidentiality of the investors' personal financial data, and keep market participants accountable to SEBI. Since the regulator is encouraging Exchanges and Registrar Agents to become one-stop KYC gatekeepers, in which case we suggest that rules include a three-year validity for such AI status to avoid operational bureaucracy. Overall, the draft regulations are a welcome introductory step but many wrinkles still need to be ironed out. Irrespective, the AI framework simplifies the intermediation process for private placements, provides qualifying investors with diversification potential, helps issuers raise funds in a quick and targeted manner without the burden of complying with retail investor's protection laws, and deepens the financial market.

[Tap here to see our complete response to SEBI](#)

[Tap here to read SEBI's proposal](#)



REVIEW OF REGULATORY PROVISIONS RELATED TO INDEPENDENT DIRECTORS



In order to further strengthen the independence of Independent Directors (IDs) and enhance their effectiveness in protecting minority shareholders' interests, SEBI initiated a review of regulatory provisions related to IDs. The proposal focuses on the eligibility criteria for IDs, the process for their appointment, re-appointment, and removal, enhancing transparency in the nomination and resignation of IDs, strengthening the composition of Board Committees and remuneration of IDs.

Some of the recommendations put forth in the Consultation Paper are commendable and shall bring a good change in functioning of Independent Directors and improve the Corporate Governance and protection of rights of minority shareholders. The, CFA Society India's advocacy group suggested alternative views to some of the proposals, highlighted on next page.



- It is proposed that KMPs, their relatives or employees of promoter group companies, cannot be appointed as IDs in the company, unless there has been a cooling-off period of 3 years.

We are of the opinion that once someone has been a KMP or an employee of promoter group companies, the element of Independence cannot be maintained irrespective of cooling period.

- It is proposed that the appointment, reappointment, or removal of IDs shall be subject to 'dual approval' of all shareholders as well as approval by 'majority of the minority'.

We suggest that the Majority should not be eligible to vote on the resolution at all and instead be just allowed to nominate Independent Directors for minority voting.

- It is proposed that the audit committee shall comprise of 2/3rd IDs and 1/3rd Non-Executive Directors (NEDs) who are not related to the promoter, including nominee directors, if any.

However, we think shareholders need directors having more knowledge about the company's operations in the Audit Committee so they can ask relevant questions to the KMP and Auditors.

This proposal reduces the flexibility for companies to include qualified insiders who could reduce the information deficit within the audit committee.

[Tap here to see our complete response to SEBI](#)

[Tap here to read SEBI's proposal](#)





FEEDBACK ON DRAFT RBI (CREDIT DERIVATIVES) DIRECTIONS, 2021



The RBI issued draft Credit Derivatives Directions, 2021 to revise the framework for Credit Default Swaps as a measure to deepen the corporate bonds market.

Our Advocacy group recommended various suggestions with the key points listed below:

- CDS for instruments to be permissible only if specified in the term sheet, expand the range of credit products for future market development.
- Exchange-traded CDS of credit indices can be effective and liquid.
- Structured notes/ debentures may be allowed with embedded CDS.
- Permit Market makers like banks & NBFCs to issue debt securities with embedded CDS.
- Minimum floor of INR 2.5 MN for contract sizes on OTC and Exchange Traded framework

[Tap here to access our complete response](#)

[Tap here to read RBI's draft Directions, 2021](#)



CFA Society
India





ASSESSING TRANSPARENCY OF INDIAN BANKING SYSTEM'S PUBLIC RISK DISCLOSURE REGIME



CFA Society India is pleased to have hosted a webinar with Dvara Research team on their remarkable paper on Assessing Transparency of Indian Banking System's Public Risk Disclosure Regime – A Regulation Based Approach.

Sowmini Prasad and Madhu Srinivas from Dvara Research presented their findings with respect to the regulatory public disclosure regime of the Indian banking sector and their recommendations to enhance the transparency of the disclosures.

Dvara Research's findings suggest that, across entities, disclosures on risk exposures and their underlying risk drivers, comes up short on both qualitative and quantitative aspects. The analysis also finds that for entities other than scheduled commercial banks, the current disclosures are too infrequent to accurately capture the risks that build up in the intervening period between successive disclosures.





The paper offers some policy recommendations that could bridge the gaps identified in the current disclosure regime. Some of the key recommendations are:

- Greater and more consistent disclosure of risk metrics for all entities covered. The focus of disclosure needs to shift from just disclosing gross values of exposures and capital charges, to disclosing more qualitative and quantitative information on the underlying risk drivers and the models used for valuing these risks.
- Disclosure of Stress Test results for all entities covered. The design of the stress test scenarios gives an insight into the management's view on the relevant risk drivers. It is forward-looking information and complements the historical information disclosed in the risk metrics.
- Bringing greater alignment between RBI mandated disclosures and Ind-AS. While Ind-AS makes up for the short-fall in some of the gaps left by RBI's disclosure requirements, it prescribes 'what' needs to be disclosed and leaves it to the judgement of the NBFCs to decide on 'how' they want to make the disclosures. RBI can define a basic set of disclosures, to make them more comparable and reliable, and also ensure that certain key information is mandatorily covered.
- Extending Ind-AS for SCBs, UCBs, and RRBs to aid greater transparency of their balance sheets and harmonise the accounting standards applicable across all entities.
- Lack of timeliness of disclosures is a common concern across NBFCs, UCBs and RRBs as almost all disclosures are only annual. Disclosures on certain aspects like capital, NPAs, and credit risk need to be made at least on a quarterly basis.

[Tap here to access the research paper](#)





OTHER ADVOCACY INITIATIVES

CONSULTATION PAPERS

- Consultation Paper on Review of Regulatory Framework of Promoter, Promoter Group and Group Companies [Tap here](#)
- Consultation Paper on proposed framework for Gold Exchange in India and draft SEBI (Vault Managers) Regulations, 2021 [Tap here](#)

EVENTS, PROGRAMS & COMPETITIONS

- Webinar - AGMs in times of disruption: Why they matter, and how should investors prepare. – [Tap for video](#)
- Corporate Governance in Investing Summit - Corporate India and new focus on ESG - [Tap for video](#)
- Corporate Governance in Investing Summit - Protecting Shareholders Interest - Panel discussion - [Tap for video](#)
- Webinar – Practitioner's Insights: Forensic accounting - [Tap for video](#) (members only)

RESEARCH PUBLICATIONS & BLOGS

- ESG – The Next Big Investment Theme in India – [Tap here](#)
- Independent Directors – I Saw the Loch-Ness Monster!!!- [Tap here](#)

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