Hello readers

We see 2022 as the year of transition as regulatory enhancement in key areas of professional investing to make the industry more efficient, transparent and future ready. Our second roundtable on ESG in December 2021 included portfolio managers across mutual fund & alternative managers. This forum is emerging as the pre-eminent platform to debate the future of ESG investing among professional managers in India. The fourth edition cover story looks at the granular aspects on disclosure standards, data sources and quality, and the regulator's consultation paper through the feedback from the ESG roundtable. We also included the observations of the Society’s expert committee for SEBI’s consultation paper on ESG Disclosures; we believe this regulatory effort can possibly shape the future standards of ESG disclosures for listed companies through material enhancements in the guidelines for BRSR disclosures for companies across the market cap. SEBI’s consultation paper on Market Making in Corporate Bonds is a progressive attempt to structurally resolve some of the mutual funds industry’s persistent challenges in managing illiquidity and market making gaps in segments of the corporate bond market, faced in the pandemic volatility and past credit stress situations in the economy. We have included the feedback prepared by the Society’s research committee along with renowned industry leaders, considering the perspective of all stakeholders including investors in the bond markets. This edition also includes the Mercer Global Pension Index report, which is an annual survey of retirement income systems in different countries. While India’s rank has fallen marginally this year, it is a very pertinent topic for our country considering relatively weaker social security systems and the scope for policy makers to strengthen the system. The entire list of events, research publications, and research webinars is included inside, and we hope the links to such reports help readers and industry practitioners with relevant insights into topics ranging from financing Sustainable Agriculture, Goodwill, and Stakeholder Capitalism to global ESG disclosure standards for Investment Products, and more.

Best Regards,

Volunteer Editors
Shamit Chokshi, CFA
Nimisha Pandit, CFA
Given the increasing interest from investors around sustainability disclosures, CFA Society India & CFA Institute convened a roundtable on ESG disclosure practices on 10 Dec 2021 to discuss:

- CFA Institute Global ESG Disclosure Standards for Investment Products
- Current state of ESG disclosures among the participants, including ESG fund managers, asset owners & other stakeholders
- SEBI consultation paper on ESG disclosure of mutual fund schemes

During the discussion on the CFA Institute’s Disclosure Standards following points were deliberated:

- The trade-off these standards provide between standardization and flexibility and how it could provide a degree of comparability across providers.
- The future of SFDR given that regulators are likely evolving their own regulations.
- The need for materiality considerations and whether regulators or standard setters should define materiality. Participants agreed that materiality should be interpreted as factors material to the investment objectives of the client. Absolute standard of materiality would not help.
- Importance of seeing consumer demand in terms of product choices and for policy makers to pull other levers to achieve the desired outcomes.
During the discussion on the SEBI’s consultation paper on ESG disclosures following points were deliberated:

- Compliance cost of reporting on stewardship and engagement on every ESG product.
- Practical difficulties in demonstrating real-world outcomes as required in the SEBI’s consultation paper.
- Challenges especially for small cap funds w.r.t. SEBI’s proposal to make BRSR disclosure mandatory for inclusion in ESG funds.
- Suggestion for rolling forward the dates for implementing the BRSR requirement for funds by one year.
- If imposing standardization at such an early stage of ESG investing could hamper innovation. Presently, ESG is viewed primarily through a risk lens and in time, ESG may be considered in terms of opportunities, and that would be the time to mandate disclosures on impact and other dimensions.

As a conclusion of the session, CFA Society India recommended that SEBI’s proposals be structured in terms of firm-level, product-level & periodic disclosures for better readability and transparency & required disclosures and recommendations related to practices, policies, and procedures of the fund be differentiated.
In October 2021, the SEBI put out a consultation paper for introducing disclosure norms for ESG MF Schemes. The recommendations put forth in this consultation paper would help in bringing more transparency & limit issue of greenwashing. Following are some of our key suggestions to the SEBI on recommended disclosure norms:

- SEBI should consider structuring the recommendations provided in this consultation paper into firm level disclosures, product level disclosures and periodic fund disclosures.
- SEBI should consider including guiding principles for disclosures for ESG funds to follow (principles such as comparability, simplicity, reliability, consistency, completeness & accessibility).
- The clause that, 'AMCs shall only invest in securities which have BRSR disclosures' 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 & their ability to actively engage with companies with no BRSR disclosures for improving their sustainability profile.
- 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.
- For ESG debt schemes investing in labelled 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.

Our complete response to SEBI can be accessed here. To read SEBI's proposal, please click here.
In November 2021, the SEBI put out a consultation paper for Market Making in Corporate Bonds (CBs). We appreciate the SEBI's effort to increase the liquidity in the secondary market for corporate bonds in India. In this endeavour, market making mechanism in corporate bonds is a positive step.

Following are some of our key comments regarding the proposed mechanism:

• Market making in CBs needs to be combined with other measures like corporate bond repo market and having a backstop facility available in times of crisis. Without a calibrated approach there is a risk for mechanism not being accepted by the market.
• Applicability of mechanism should initially be only mandatory for AAA issuers and voluntary for lower rated issuers. We are also concerned that the mandatory applicability of the mechanism may deter new / first time issuers to access the CB route.
• While determining eligibility of entities to act as market makers, the additional Rs. 10 cr. net worth requirement over and above the minimum net-worth requirement may not be sufficient for the market making activity. The amount should be linked through the capital adequacy framework.
• Alternative a completely new entity can be envisaged which acts as a central market making unit, with the capital being provided by the stakeholders.
• Issuers can be incentivized to take up market making by allowing certain regulatory relaxations like exemptions from certain FPI guidelines on VRR, residual maturity, and debt quotas for issuers supporting market making on their bonds.
Mercer Consulting conducts an annual survey of retirement income systems in different countries to evaluate adequacy, sustainability and integrity of these systems and benchmark them based on more than 50 indicators.

In 2021, CFA Institute is the main sponsor of the Mercer Global Pension Index. This year's edition of Mercer CFA Institute Global Pension Index compared 43 retirement income systems, highlighting both the considerable diversity and the positive features present in many systems. In 2021, new entrant Iceland is named as having the world's best pension system overall.

India has been ranked 40th on overall index ranking out of 43 countries. India's rank dropped from 34th position out of 39 in 2020. As per the survey, India had an overall index value of 43.3. It scored 33.5 in adequacy sub-index, 41.8 in sustainability sub-index and 61.0 in integrity index.

As per the survey, with little social security coverage in the country, the workforce in India has to manage pension savings on its own for the most part. The coverage under private pension arrangement is just about 6% in India. With over 90% of the total workforce being in the unorganised sector, measures need to be taken to get a larger workforce under pension savings. This would go a long way in improving the adequacy sub index.

To read the report, please click here
OTHER ADVOCACY INITIATIVES

EVENTS, PROGRAMS & COMPETITIONS
• Conference: 3rd Corporate Governance in Investing Summit
• Webinar: Financing Sustainable Agriculture in India - [Link]
• Webinar: Introducing the Global ESG Disclosure Standards for Investment Products - [Link]
• Webinar: Assessing Transparency of Indian Banking System’s Public Risk Disclosure Regime – [Link]

RESEARCH PUBLICATIONS & BLOGS
• Research Paper: Sustainability in Fixed Income - [Link]
• Research Paper: Goodwill: Investor Perspective – [Link]

Reach us advocacy@iaipirc.org
Follow us @cfasocietyindia

www.cfasocietyindia.org