



CFA Society
India

India Insights

June 2024



EDITORIAL

It is my great pleasure to bring to you our latest edition of India Insights.

This was an eventful quarter for The Research, Advocacy and Standards committee of CFA Society India. While SEBI issued several consultation papers in the last few months, we managed to respond to below Consultation Papers

- Framework for Price Discovery of Shares of listed Investment Companies & listed Investment Holding Companies.
- Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting.
- Measures Towards Ease of Doing Business REITs and INVITs.
- Enhancement of operational efficiency and Risk Reduction - Payout of securities directly to client demat account.
- Recommendations of the Expert Committee for Facilitating Ease of Doing Business with respect to Business Responsibility and Sustainability Report (BRSR).
- Review of Eligibility Criteria of Stock Derivatives in line with the market growth.
- Recommendations of the Expert Committee for SEBI Mutual Fund Lite Regulations.

CFA Society India's Financial Literacy and Women in Finance committees are working together to increase investment awareness in working women. The team offers a short session on basic concept of inflation, saving, investing, financial planning for wealth creation, asset allocation, diversification and risk management. The first few sessions have been planned in the month of July. Readers are requested to contact their HR teams or share the same with their friends in other organisations who may be interested in organising such sessions.

We held a roundtable on GIPS with representatives of prominent Asset Management Companies, PMS and AIFs in the month of March 2024. Post the roundtable, during this quarter GIPS committee worked with three investment houses and guided them on matters concerning GIPS compliance. We are happy to help entities who are interested in adopting GIPS but may have any questions on operational and compliance part.

I hope you find this edition of India Insights useful. We will be happy to hear and discuss your suggestions and opinions related to advocacy initiatives.

If you are a member of CFA Society India and wish to volunteer for any of the advocacy initiatives, please drop a message on any of CFA Society India's social media handles and we will get in touch with you.

Best Regards,
Nimisha Pandit, CFA



CONSULTATION PAPER ON FRAMEWORK FOR PRICE DISCOVERY OF SHARES OF LISTED INVESTMENT COMPANIES & LISTED INVESTMENT HOLDING COMPANIES



We appreciate the initiative taken by SEBI in seeking public feedback on the proposed framework for price discovery of shares of listed Investment Companies (ICs) and Investment Holding Companies (IHCs), particularly those trading at a significant discount to book value.

This consultation paper highlights the inherent problem with holding companies, where promoters maintain control beyond their economic shareholding, resulting in minority investors being disadvantaged.

While we agree that enhancing price discovery mechanisms is essential for market efficiency, we believe that implementing a special call-auction mechanism without a price band may not be the most suitable approach. Instead, we propose exploring alternative solutions that maintain stability while ensuring fair and transparent price discovery.


Below are some of our key suggestions.

- If the shares of ICs and IHCs are indeed trading at a significant discount, this should lead to high demand and the stocks consistently hitting the upper price band. For efficient price discovery, SEBI could have rules in place that in such situations to raise the price band (say 50%) beyond the existing price bands, for a period of week or two, to facilitate faster price discovery.

[Our complete response to SEBI can be accessed here.](#)

- If the stock prices of ICs and IHCs are trading within the price bands, it implies that markets are efficiently pricing the shares of the ICs and IHCs and there is no need of any special call-auction irrespective of the discount between the book price and market value of assets.
- However, the above proposal may still not address the fundamental issue of corporate governance. One of the reasons for creating a holding companies' structure is to enable promoters to exercise control beyond their economic shares, leading to unduly high voting power for promoters. Minority investors are disadvantaged as holding companies trade at massive discounts compared to the underlying asset value. The lack of a mechanism for minority shareholders to realize the underlying value of the assets held by the company is a major concern. Hence, we are proposing another suggestion mainly to address the corporate governance issue:
 - o SEBI could implement value realization mechanisms through a majority of minority voting system. Under this mechanism, if an Investment Company (IC) or an Investment Holding Company (IHC) is trading at a discount exceeding a specified threshold, for instance, 20%, SEBI could mandate a vote for minority shareholders while excluding promoters or majority shareholders from participation.
 - o If the majority of minority shareholders consent to unlocking the full value of their investments, the underlying assets could be proportionately distributed among all shareholders.
 - o Such a proposal would create an incentive for majority shareholders to ensure that the IC/IHC does not trade at a discount below the threshold, thereby moving towards price discovery

SEBI's Consultation Paper can be accessed [here](#).



CONSULTATION PAPER REVIEW OF ELIGIBILITY CRITERIA OF STOCK DERIVATIVES IN LINE WITH THE MARKET GROWTH.



We strongly agree that there is a need to review the Eligibility Criteria of Stock Derivatives. This is an important step to first make the criteria relevant as per the market growth and to plug any loopholes in the requirements.

This will help provide further clarity to market participants on the process of inclusion and exclusion of stocks from the derivative market. There may be a need to review the criteria in future but for now we strongly believe this review was warranted.

Below are some of our key suggestions.

- We support SEBI's proposal to increase the stock's Median Quarter Sigma Order Size (MQSOS), the stock's market wide position limit (MWPL) and the stock's Average daily delivery value (ADDV).
- These are important steps to exclude the low liquidity stock which are prone to manipulation. There have been several instances where market participants believe that the current MWPL limit has been abused to manipulate the market.
- We support SEBI's proposal to extend the product success framework. This framework has already been adopted for indices, so this seems to be time tested.
- We also suggest that apart from these reviews, SEBI should predefine the periodicity (i.e. annually) of the reviews to increase transparency of the process and maintain the criterion's relevance over the years.

[Our responses to SEBI can be accessed here.](#)

[SEBI's Consultation Paper can be accessed here.](#)



RECOMMENDATIONS OF THE EXPERT COMMITTEE FOR SEBI MUTUAL FUND LITE REGULATIONS




We commend SEBI for its forward-thinking approach in proposing the Mutual Funds Lite Regulations, a significant step towards fostering innovation, reducing compliance burdens, and enhancing market accessibility for passively managed mutual fund schemes.

Below are some of our key suggestions.

- The proposed three-year shareholding lock-in period for the sponsor in the AMC under the MF Lite regulations raises some concerns, especially when compared to the five-year lock-in for regular mutual funds in order to keep alignment of interest in place. It is also noted that the Minimum Net Worth requirement has been reduced to 75 cr from 150 cr for regular mutual funds to encourage smaller sponsors.
- If existing MF goes for Hive Off route, there should be complete ring fence of Investment Management and Risk Management core functions. For certain other areas like support function, sales and marketing, HR, administration, there should be permission to share.
- We believe that MF Lite AMCs should be permitted to engage in all activities related to passive investment funds and not just be limited to managing passive investments as it would limit their potential and utility in the broader investment ecosystem. Specifically, MF Lite AMCs should be allowed to provide management and advisory services for pooled assets such as offshore funds, insurance funds, pension funds, provident funds, and foreign portfolio investors, particularly in the context of passive investments.

Our responses to SEBI can be accessed [here](#).

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- A rigorous information disclosure process should be applied to both forms of investing. For both formats, it is time that we consider XBRL, making information disclosure easy and periodic.
 - Minimum subscription at the time of NFO should be considered as lower at Rs. 5 Crore similar to Equity oriented schemes instead of Rs. 10 Crore.
 - Proposed category of "Debt Oriented" which is proposed as Equity:Debt - 25:75 should be considered as being changed to Equity:Debt - 35:65.

Our responses to SEBI can be accessed here.



OTHER ADVOCACY INITIATIVES

Consultation Papers

- Proposed International Ethics Standards for Sustainability Assurance (including International Independence Standards) (IESSA) and Other Revisions to the Code Relating to Sustainability Assurance and Reporting.
- Measures Towards Ease of Doing Business REITs and INVITs. - [Link](#)
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