To,

27th Jan, 2023

Securities and Exchange Board of India
Via email to: Shri Vishal Shukla (vishals@sebi.gov.in) and Shri Anuvesh Nigam (anuveshn@sebi.gov.in)

Sub: Comments on Regulatory Framework for Index Providers

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 **Regulatory Framework for Index Providers**

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 proposed regulatory framework for index providers is a positive step as part of efforts to enhance transparency as well as accountability in governance and administration of the indices in the Indian securities market. But 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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C. Suggestions / Comments:

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Sr. No.	Paragraph	Suggestion/Comments	Rationale
1.	5.0 a) A regulatory framework for index providers shall mandate adherence to IOSCO Principles. Further, regulations for Index Providers shall prescribe provisions to ensure inter-alia, eligibility criterion, compliance, disclosures, periodic audits, and penal action in case of non-compliance/ incorrect disclosures.	We appreciate the SEBI's effort to regulate the index providers considering the increased interest in passive investing in the last few years. We support that Index providers should be mandated to adhere to global standards i.e. IOSCO Principles. Further, we would also recommend that SEBI can also look to outline just as guidance the characteristics of a benchmark. In our view, CFA curriculum cover the characteristics of a valid benchmark in detail and we can help SEBI to share the details. To name a few, a valid benchmark should be unambiguous, investable, measurable, accountable etc.	We believe the move to regulate Index providers will be a positive step to strengthen the Indian market infrastructure. The need for index providers to be aligned with global standards should improve the transparency in the capital market.
2.	5.0 b) The proposed regulation shall be applicable to index providers (both domestic and foreign) if the users of the index/products based on index are	We believe it is a welcome step to have the index providers register with SEBI. This will give SEBI the oversight over the index providers. We also believe that SEBI may going forward recommend the registered	The rationale for recommending some relaxation is that we want to promote innovation in the capital market and easy access to international market for Indian investors.

	located in India. Thus, the litmus test to decide whether the Index Provider is required to take registration from SEBI depends upon the usage of indices by Indian investors either for benchmarking purposes or for issuance of passive products or for trading of derivative products based on indices on the stock exchanges or any other product based on index. However, if the users of index for benchmarking or issuance of passive products are located outside India, the regulation shall not be applicable.	index providers to have a designated person or registered office in India. However, some of the market participants fear that making the same rule applicable for index providers who are based out of India and the securities market is outside India may be counterproductive. This may stifle innovation and may cause difficulty in accessing the international market at low cost to the Indian investor. Further, the rule of having adherence to IOSCO principles should suffice in such cases. We would suggest that SEBI may recommend to have a minimum threshold for AUM following the index for mandating registration. Alternatively, if the index provider is not willing to register SEBI can restrict the access of the Index to retail investors and allow it only for Accredited investors. Further, we will also suggest that in case of any exception to the rule, if such index is widely adopted in large markets globally among retail funds including ETFs, and pertain to global markets (non-single country India funds), an application could be made to SEBI. For example, in USA very common to have custom indices for ETFs and a combination of sub-indices for unique strategies. Many providers exist and AMCs in india may develop unique global solutions where global providers may not agree to being regulated or change their benchmark framework for one fund.	Also, some relaxation will also help to follow the materiality principle, so that registration is mandated only after the money benchmarked to the index crosses a certain AUM. We believe SEBI should allow in regulation a way for industry or market participants to present their case, if there is an exception to the rule.

3.	5.0 g) Index Provider shall constitute an oversight committee for reviewing existing index design. The oversight committee shall also review any proposed changes to benchmark methodology and examine whether the methodology appropriately reflects the nomenclature and description of the index (true to label) and to oversee results of audit and implementation of audit observations	The constitution and power of the oversight committee has not been clearly prescribed. As this will be an important committee, we would recommend SEBI to at least provide some guidance on the constitution and power of the committee. We would actually recommend that an ideal oversight committee should have some representation from external members.	We are just looking to have more clarity so that the oversight committee can have a meaningful independent role.
4.	5.0 k) Due diligence on data submitters shall be performed by index providers and a code of conduct for data submitters covering quality, oversight, conflict of interest, record keeping etc. shall be put in place. Further, in order to protect the integrity of data and as a result, the reliability and accuracy of the benchmark determination process, the Index Provider shall be required to ensure that the data contributor(s)/submitter(s) shall source data only from the regulated entities	We believe the proposed regulation of data sourcing from only regulated entities is restrictive. We would recommend that SEBI should allow index providers to source data from unregulated entities also. We believe that SEBI should mandate that there should be a framework if data sourcing is being done by an unregulated entity, similar to as prescribed in IOSCO principle. Additionally, we would request SEBI to clarify the definition of regulated entities. Does this only include Indian regulators or does this also include global regulators?	The rationale here is that there are instances that some of the data sourced are only published by unregulated entities, so we would recommend that SEBI should allow the index providers to source such data if there are appropriate checks and balances in place.

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,
Ravi Gautham, CFA
Chairperson - Research and Advocacy Committee
Indian Association of Investment Professionals, Member Society of CFA Institute