CFA Society India

India Insights

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EDITORIAL

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

I am proud to share that during the last quarter, we successfully co-convened the inaugural edition of the India Sustainable Investment Leadership Summit in partnership with cKinetics. The summit facilitated the crucial dialogue on multiple sustainable investing topics, like understanding the need for ESG data and taxonomy, enhancing the reliability of the ESG data, the role of ESG regulations and policy in promoting sustainable investing, and the challenges of transitioning to a sustainable future in the Indian context.

Another interesting development is the BRSR Research Project. NSE, CFA Institute and CFA Society India are collaborating to analyse the BRSR Reports published by top 1,000 companies and are working on a joint research project on BRSR data. The Securities and Exchange Board of India has mandated the listed companies in India to disclose information on sustainability and ESG parameters which is BRSR (Business Responsibility and Sustainability Reporting). The purpose of the project is to: 1) understand the state of ESG in corporate India using this rich dataset, 2) assess disclosure quality and identify issues, 3) invite discussions among investors, issuers, and other stakeholders, and 4) make recommendations to improve reporting and analysis of BRSR disclosure. The analysis and research on this information may offer meaningful insights to help in a deeper understanding of the ESG landscape for Indian corporations and sustainability issues in India.

During the last quarter, The Research, Advocacy and Standards committee of CFA Society India submitted comments to the working group on the review of SEBI Mutual fund Regulations, to the working group on SEBI Regulations for Registered Investment Advisors (RIAs) and to working group on review of SEBI AIF Regulations. We also responded to the consultation paper on review of provisions of NCS Regulations and LODR Regulations for ease of doing business and introduction of fast-track public issuance of debt securities.

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

INDIA SUSTAINABLE INVESTMENT LEADERSHIP SUMMIT

The event, co-convened by CFA Society India and cKinetics, featured several key figures from the country's financial and business circles and focused upon the sustainability imperatives facing the investment industry.

Sh. Suresh Prabhu, former Union Minister, and Navneet Munot, CEO of HDFC AMC and current Chair of AMFI set the tone for the day's deliberations as the keynote speakers at the event's opening plenary by highlighting the challenge and opportunity in front of India's investment industry leaders. They not only underscored India's unwavering commitment to sustainability but also engaged in insightful discussions on recent strides in renewable energy and the pursuit of carbon-neutral goals.

Navneet Munot emphasized the vital synergy between politics, finance, and science as the trinity driving sustainable initiatives. Delving into the cultural fabric of India, the speakers illuminated how sustainability is ingrained in the nation's ethos, fostering a natural alignment with environmentally conscious practices.

The plenary session also presented the findings of the two state of sector reports: one on "Sustainable Investment in India" and the other on "Climate Action by India Inc", aimed at further catalysing the sustainable finance paradigm across the capital and financial markets.

The summit featured several speakers including Harsha Upadhyaya from Kotak AMC, Pawan Mehra from cKinetics, Aniket Shah from Jefferies Group, Maria Lombardo from Standard Chartered Bank, Akhilesh Tilotia from NIIF, Jay Kothari from DSP AMC, Nana Li from

Impax Asset Management, Chirag Mehta from Quantum AMC, Srini Viswanathan from Vibrant Energy and James Alexander from UKSIF /GSIA amongst others.

Several speakers underscored the obligation of the investment profession to deliver returns sustainably, distinguishing sustainable investing from investing in sustainability. They also highlighted the gaps and anomalies in ESG data reporting. Emphasizing the critical need to enhance the reliability of ESG data, the discussion highlighted measures such as improved training on ESG reporting, standardization of reporting standards, and ensuring the accuracy of reported data through robust assurance processes.

Government regulations' role in shaping sustainable investing also featured as a key area of reflection. The speakers emphasized the importance of establishing robust and consistent standards, all while mitigating the cost of compliance to ensure the nascent ESG fund management market in the country can thrive.

The summit also had a dedicated session delving into the implications of transitional and physical risks of climate change on portfolio returns as well as an exploration of current sustainable investment avenues in India and the challenges in analysing these opportunities.

The role of Sustainable Investment Forums in influencing global policies was also discussed, underscoring the need for a dedicated SIF body in India.

The Summit served as a comprehensive platform for meaningful discussions, insights, and solutions shaping the future of sustainable finance in India.

REVIEW OF SEBI MUTUAL FUND REGULATIONS.

In October 2023, SEBI constituted Working Groups to recommend on simplification, ease of compliance and reduction in cost of compliance and invited suggestions from all stakeholders. CFA Society India submitted our suggestions to the working group. Below are some of our key suggestions with respect to Mutual Funds.

- Reducing the frequency of portfolio disclosures - The monthly disclosure of portfolio holdings puts undue scrutiny on the fund manager to focus on short-term and manage the month-end holdings.
We recommended that SEBI reduce the frequency of portfolio holdings to quarterly. Disclosure of portfolios at higher frequency can be mandated on certain pre-determined triggers like sharp market movement, and liquidity etc.
- Limitation on fees and expenses on issue of schemes - Advertising, marketing, and service expenses of direct clients are higher for AMCs compared to clients in Regular Plans since intermediaries play a large role in acquiring and servicing clients.
Since there is no intermediary involved in the Direct Plan, the AMC must market schemes to direct clients as well as service them and hence the expenses related to such acquisition and servicing should be allowed to be charged to the Direct Plan. To that extent, the difference in the TERs of the two plans will be lesser than the commission cost of the Regular Plans.

Our complete response to SEBI can be accessed here.

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- Introduction of advisor plan best serves the goals for almost all existing investors (including direct plan investors) by getting legitimated unbiased investment advice on product solutions. A mandatory discounted advisor plan (10% -20% discount to direct) would create the incentives for investors to appoint RIAs and eventually lead to a sizeable industry aum getting advised by Sebi-regulated advisors.
- Currency has a huge impact on investing in foreign stocks. SEBI can allow derivatives to hedge the FX exposure due to investing in global fund or stocks.
- We believe a lot of regular MF scheme investment continues, even when the distributor is not offering any services, because the investor does not want tax implication. We believe SEBI can allow investors changing from Regular to direct scheme without the need for redemption., after a certain period i.e. 3 years of investing in scheme.

SEBI REGULATIONS FOR REGISTERED INVESTMENT ADVISORS (RIAS).

Below are some of our key suggestions with respect to RIAs.

- We understand the importance of experience in delivering the fiduciary duty that IAs are supposed to deliver. However, a minimum experience of 5 years in a related industry makes it difficult for new IAs to enter the industry. Given that India currently has very few IAs as opposed to the need for more people rendering quality advice, it is imperative to enable new IAs to enter the industry with requisite qualifications and a reduced threshold of requisite experience in a related industry.
- We understand the idea behind the need for having requisite qualifications and experience for any individual dealing with client advice. However, availability of post graduates who want to work with existing IAs is limited. This makes it difficult for IAs to build a team and therefore build a more robust IA practice. Also, we believe that NISM XA and XB are extremely good exams to test both the theoretical and conceptual knowledge and therefore these can be sufficient criteria for employees associated with investment advice. Further, the concept of internship can be replicated in the IA profession.
- Remove the mandatory condition of re-certification before expiry of validity and make CPE hours sufficient requirement for continuity. Mandatory re-certification of NISM XA-XB poses a business continuity risk.

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- A client who first approaches an IA or an MFD sometimes is not clear in terms of what type and what depth of advice they need. By enabling individual IAs to also become MFDs, the client can exercise their own choice of whether they want to opt for the MFD route or an IA route. Currently, by segregating these two practices, both an MFD and an individual IA is forced to push their own practice. This sometimes may not be in the best interest of the investor.
- The number of clients before compulsory transition from individual to non – individual advisor should be relaxed to include both number of clients and revenue as a benchmark.
- Bring pricing parity between direct and distribution versions of all products which are under the purview of SEBI – Mutual Funds, PMS and AIF.
- Reconsider the approval process for every advertisement to BASL – introduce a code of conduct / guidelines and penalize advisors who do not comply with the guidelines.
- Standardize the track record reporting format and remove the current restrictions.

REVIEW OF SEBI AIF REGULATIONS

Below are some of our key suggestions with respect to AIF.

- Allow Angel Funds (Cat1 AIFs) to invest in companies other than startups - The Angel funds are mandated to invest in startups and typically invests in very early-stage companies. However, as the companies grow and mature on various metrics, they may no longer a start-up as per the definition. For such winners, the Angel fund loses the right to make further investment. This restriction in effect devoid the investment manager the upside of winners and hence generating higher returns for its investors.
- Enhance Investor Reporting - We may require AIF managers to obtain and distribute to investors an annual audit for each private fund the AIFs manages, alongside a fairness or valuation opinion from an independent opinion provider.
- Reduce Custodial Expenses for AIFs with smaller AUMs - The AIFs are required to have Custodians. Typically banks and other entities provide the custodial services and charge about INR 15-20k per month. Such costs are quite high for smaller fund managers. If these costs can be reduced further by recommendations to custodians, it will largely benefit AIFs with smaller fund corpus.
- Clarity on CIPM (Co-investment Portfolio Manager) - Funds that provide co-investment opportunities to LPs need to obtain a COPM license. This classifies the entity as a PMS, even though it is not a true PMS. We request clarity on whether all PMS compliances apply to COPM license holders.

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- Relaxations for FORM DI akin to Mutual Fund Industry - AIFs (CAT-III) invest in listed securities. Per RBI, Form DI is required to be filed by all AIFs if the sponsor or manager entity is controlled by foreign entity. However, overall MFs, even if controlled by foreign entities, are specifically exempted from filing such forms. More so Form DI are extremely onerous as separate login details must be created for each downstream investment in listed security, adding to compliance cost and burden. Like Mutual Funds, relaxation should be provided to AIFs (CAT – III) funds too.
- Clarity on tax treatment - For a AIFs (CAT -III), there is no clarity on the tax treatment in the hands of the end investors, at the time of redemption of units, which ideally should be tax exempt, when those are specifically taxed at Fund level.

PROVISIONS OF NCS REGULATIONS AND LODR REGULATIONS FOR EASE OF DOING BUSINESS AND INTRODUCTION OF FAST-TRACK PUBLIC ISSUANCE OF DEBT SECURITIES.

Below are some of our key suggestions with respect to NCS & LODR Regulatons.

- We appreciate SEBI's effort to deepen the corporate bond market by reducing the denomination amount of face value of privately placed NCDs or NCRPS. This along with the online bond platform regulation can help boost retail participation in the bond market.
- We also believe that the appointment of a merchant banker for such issuance is a step to help protect the interests of retail investors. But, we have certain concerns regarding the efficacy of this measure and accordingly, we have some suggestions to build further protection for retail investors.

1. SEBI may allow this process only for a company already having a debt issuance history and outstanding so that the retail investors have some history to fall back on and understand the debt issuer. Also, we may limit the issuance with the lower denomination as a limited percentage (such as 10%) of their debt outstanding.
2. Merchant bankers should be asked also to underwrite the issue so that merchant bankers have some skin in the game. A minimum holding period may be prescribed for merchant bankers before allowing down selling on online bond platforms.
3. Like equity IPO, the merchant banker should certify that they have completed due diligence and signoff on the authenticity of data in the offer letter.

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- We agree that there is a need for standardization for record date or shut period. However, we believe that record date or shut period needs to be reduced further to 3 days.
- In case of fast-track public issue of debt securities, the retention limit of over subscription may be fixed at a maximum of five times of base issue size. We agree with the proposal but requested SEBI to mandate disclosure of the maximum amount which issuer may retain in that particular issue.