CFA Society India

India Insights

December 2022

EDITORIAL

A very happy new year to all!

In the last quarter, SEBI came out with the final regulations for Online bond Platform Providers. We were pleased to see that many of our recommendations had been accepted by SEBI in the final regulations.

In November 2022, NSE Indices Ltd revised its methodology of Nifty equity indices for treatment of mergers. CFA Society India supports the revised framework. There are several benefits of the revision i.e., reducing churn, mimicking the actual character of indices, avoiding reversals etc. In view of an impending merger of two large NIFTY 50 companies, the revision becomes even more important in reducing the impact costs.

We successfully completed 3rd season of CFA Society India's Ethics Challenge. Now applications are open for CFA Institute's 2023 edition of Young Women in Investment program. This program is useful for fresh women graduates in any discipline and early career professionals who want to switch to finance industry.

The 4th edition of the Corporate Governance in Investing Summit will be held on 25th March 2023 in Pune. This year the summit will focus on Corporate Governance in closely held companies and challenges faced by them in balancing aggressive growth while walking the path of accountability, transparency, and integrity. Save the date.

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.

Best Regards,
Volunteer Editor
Nimisha Pandit, CFA

REGULATORY FRAMEWORK FOR ONLINE BOND PLATFORM PROVIDERS

After seeking comments on proposed regulatory framework for online bond trading platforms in August 2022, within three months SEBI came out with the final regulations for Online bond Platform Providers.

We were pleased to see that many of our recommendations had been accepted by SEBI in the final regulations.

We had recommended mandatory licensing of platforms with the SEBI. SEBI has mandated platforms to register as a Stock Broker in Debt segment of exchanges.

Further we had recommended that details of securities should include the most important aspect of the securities i.e. issuer, rating, date of maturity, interest frequency, amortization schedule, minimum investment, YTM, YTC, last traded date, last trading price etc. SEBI has mandated most of these requirements.

We had recommended that platforms should have clear Disclosure of conflict of interest and related party transactions. We had recommended that SEBI should look to provide stringent rules for Advertisements. – This was not part of consultation paper, but SEBI has included the same in final regulations as per our suggestion.

One suggestion which has not been accepted is that SEBI should continue allowing both listed and unlisted securities on online platforms, as the market is still in nascent stage.

Overall, the regulation seems to be well balanced and have covered a lot of ground to protect investor interest.

To read the regulation, please click **here**

Our complete response to SEBI can be accessed here.

TREATMENT OF MERGER/DEMERGER IN NIFTY EQUITY INDICES.

In November 2022, NSE Indices Ltd revised its methodology of Nifty equity indices for treatment of mergers. Earlier in October 2022, NSE Indices had floated a consultation paper on the proposed revision.
Under previous methodology, in case of merger of any of the index constituents, transferor company was excluded from the index soon after the equity shareholders' approval to a scheme of arrangement for merger. As per the revised methodology, transferor company shall be excluded from index on the ex-date (T Day) of merger i.e. closing of T-1 day.
CFA Society India supports the revised methodology as it will reduce the churn in index constituents. In the previous framework, the challenge apart from the issue of churn is that the merger/demerger event may not actually fructify or may take long to happen even after the shareholder approval is in place, due to the regulatory procedures.
We studied the global practices of treatment of merger/demerger and submitted our comments to NSE Indices' consultation paper.

Following are our key observations:

- S&P DJI indices' treatment of mergers involves certain discretion to accomplish their stated aim to mimic the actual experience of index clients on a best effort basis and also the aim that turnover in index membership should be minimized when possible.
- The changes in S&P DJI indices are mostly done close to the corporate action date or only when the shareholder approval is irreversible. This is in line with the proposed changes.

Our complete response to NSE's consultation paper can be accessed here

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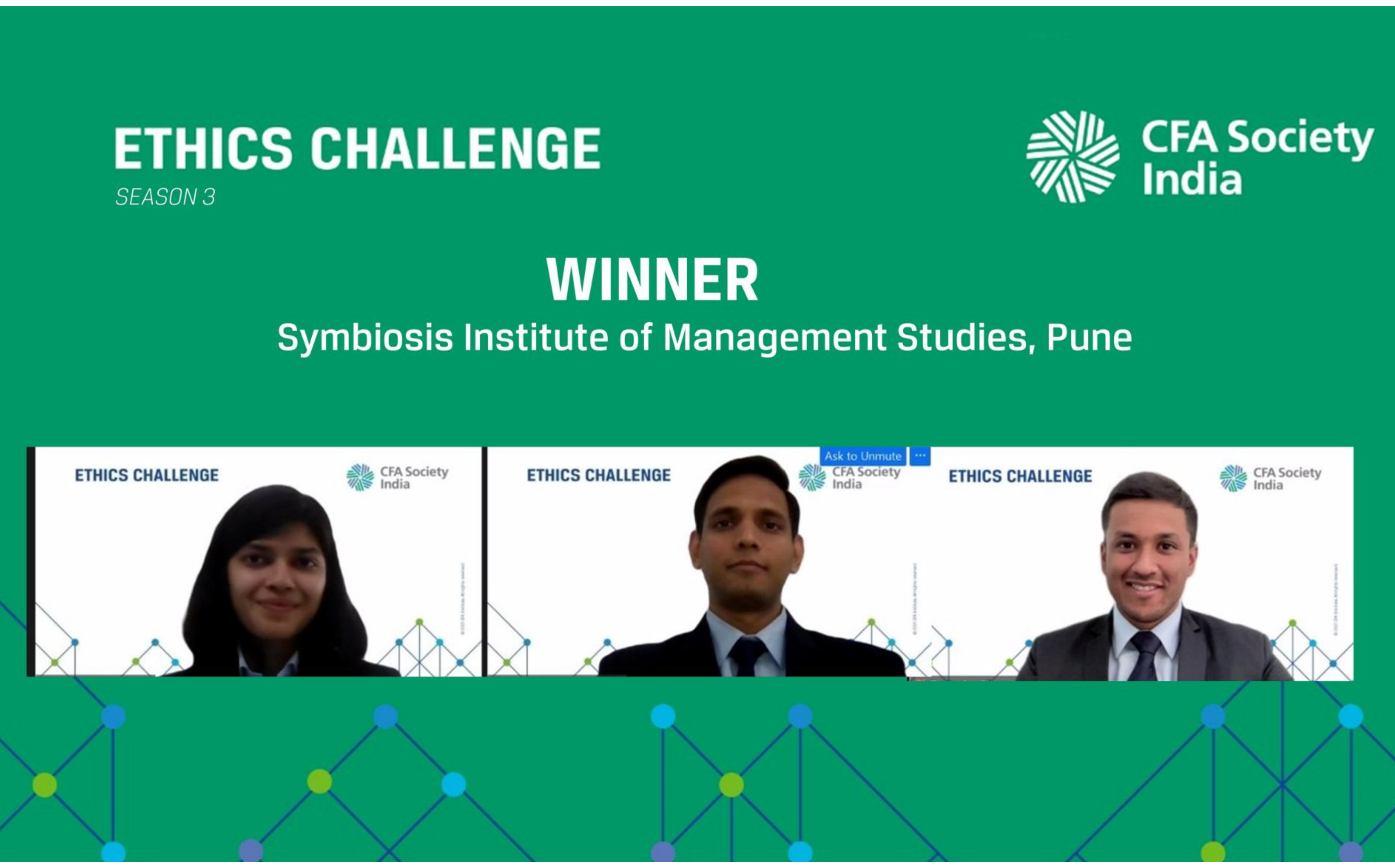
- In case of FTSE Russel Indices, they may consider a merger event final even before the shareholder approval. They decide based on their judgement of prevailing shareholder sentiment, board/director recommendations, exchange notification, expected completion date, and stock price versus offer value when making this decision.
- In case of demerger of spin off, S&P DJI Indices follows a general policy, a spin-off security is added to all indices where the parent security is a constituent, at a zero price at the market close of the day before the ex-date. The spin-off security will remain in the parent's indices if it meets the eligibility criteria.
- In case of FTSE, the spin-off entity will be added to the same indices as the parent company, per the terms, on the ex-date of the distribution. If the security meets the eligibility criteria it is retained until next quarterly review, where it will be re ranked or removed. While if it's not eligible, the security is excluded at the time of listing
- We suggested that NSE indices, in addition to the operational mechanics, clarify the principle driving the changes - that of reducing the churn while balancing the need for being true to index character.
- Significant market events, especially involving misconduct by market participants affect trust negatively. The participant felt that there could be repercussions on trust, if these issues turn out to be systemic.
- The participants confirmed that the findings regarding technology and robo-advice resonated with them. Some investors are comfortable with technological tools for search and due diligence, but they still want to consult an adviser or visit a branch before making a significant financial decision.
- The participants echoed having a shared context is important for trust. In some settings, being in the same space as the client (in terms of language, culture, or other factors) is a precursor to having meaningful conversations.

To read NSE press release, please click here.

CFA SOCIETY INDIA'S ETHICS CHALLENGE: SEASON 3



As part of CFA Society India's continuous endeavour to inculcate highest standard of ethics & excellence in the investment profession, we held the 3RD Season of our Ethics Challenge for aspiring professionals and a public Quiz on social media.
The Ethics Challenge is a competition between university-sponsored teams that analyse a case which contains a variety of ethical dilemmas. The case is developed by the CFA society India in conjunction with CFA Institute and incorporates common ethical issues and the application of the CFA Institute Code of Ethics and Standards of Professional Conduct.

This year the winning teams are:
1. Symbiosis Institute of Management Studies
2. Indian Institute of Management Bangalore
3. Indian Institute of Management, Indore

Congratulations to all the Winners.

OTHER ADVOCACY INITIATIVES

EVENTS, PROGRAMS & COMPETITIONS

- Webinar| Practitioners' Insights: Social Ventures and Investment Models - **Link**
- Webinar| Practitioners' Insights: Shareholder Activism in India and Asia Pacific: Recent History and the Road Ahead – **Link**

RESEARCH PUBLICATIONS & BLOGS

- Research Paper | Fund and Games: Investment Gamification and Implications for Capital Markets - **Link**
- Blog | Anatomy of a Sustainable Corporation – **Link**
- Blog | Person of the Year 2022 – **Link**

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