CFA Society India

India Insights

September 2022

EDITORIAL

It was an eventful quarter for CFA Society India's advocacy committee. We submitted our comments on SEBI's consultation papers on Online Bond Trading Platforms, Applicability of SEBI PIT Regulations to MF units and consultation paper on Green & Blue Bonds as a mode of Sustainable Finance.

The recommendations put forth in SEBI's consultation papers is a positive step.

We appreciate the SEBI's effort to bring out regulations to tighten the norms for insider trading in Mutual funds. We strongly believe that any investment vehicle offered to retail investors need to have the highest level of safeguards in place, so that investor rights are protected.

However, we have our reservations about including pooled investment vehicle like MFs in the insider trading regulations, as we believe that in most of the cases, insiders won't be able to take advantage of the information.

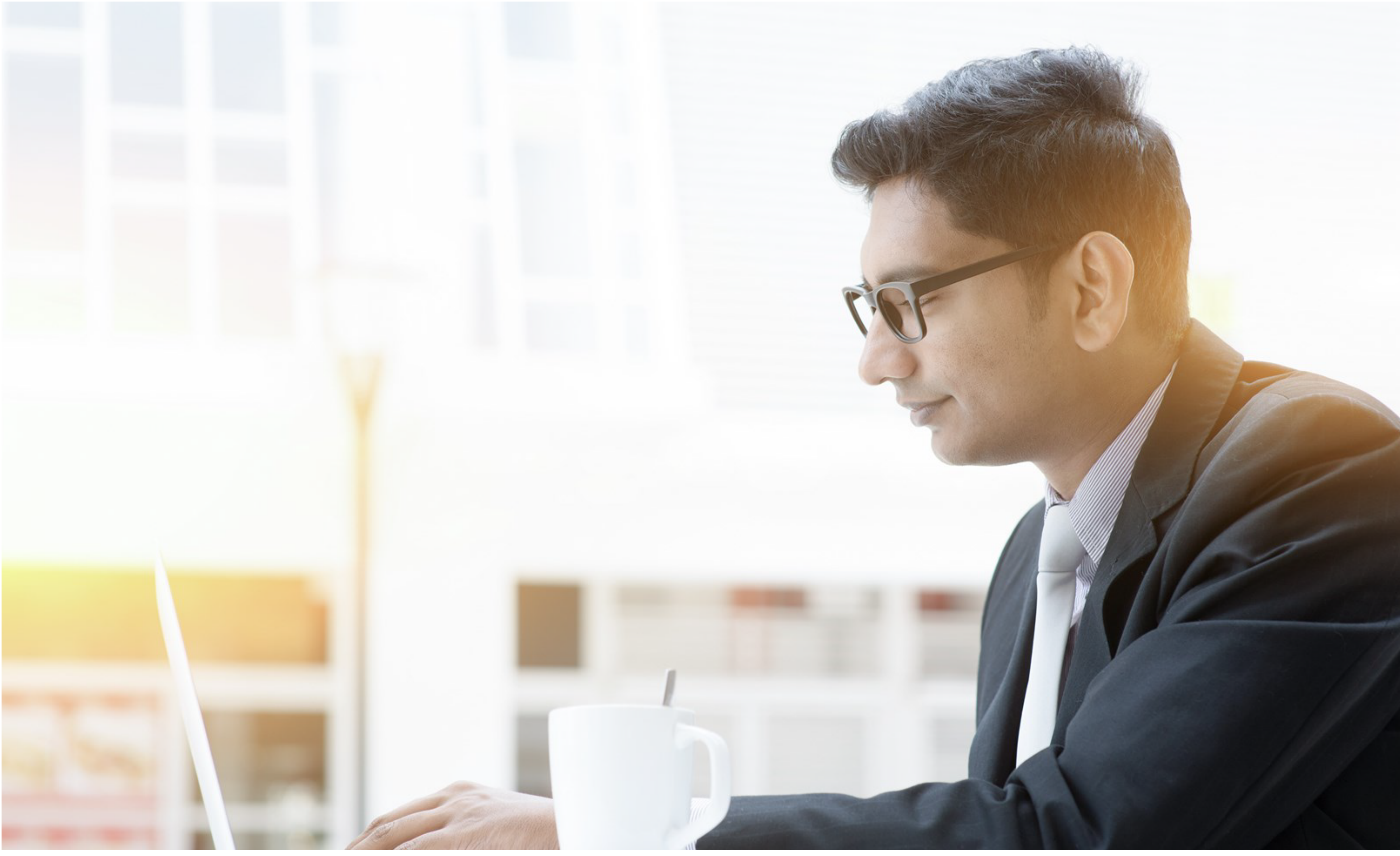
Last month we launched 'FEMTOR - The Mentorship Club'. It is a volunteer-led initiative to support women members through different career stages. The club will pair mentees and mentors to work together to achieve specific goals. The club aspires to build a community of women members to foster practical discussions on professional issues, network with industry role models, find a way for women members to stay in profession and promote 'Career-Self Reliance'.

CFA Institute's Research Challenge 2022-23 and 3rd season of Ethics Challenge is currently underway. Our volunteers have penned a few opinion pieces on topics related to ESG. Those are listed at the end of the newsletter. You can also find our member volunteer, Ravi Saraogi's research paper on Safe Withdrawal Rate for a Retirement Portfolio in India listed in the newsletter.

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

ONLINE BOND TRADING PLATFORMS - PROPOSED REGULATORY FRAMEWORK



In August 2022, CFA Society India submitted Comments on SEBI's Consultation Paper on Online Bond Trading Platforms - Proposed Regulatory Framework.

These platforms are plugging a gap in the existing infrastructure and there is a need to encourage such innovation. A well-designed regulatory framework will be a positive for the end users and the whole ecosystem which is currently in nascent stages.

We appreciate the SEBI's effort to design a regulatory framework for the online bond trading platform. We strongly believe that licensing of such platforms should be made mandatory, as this will bring all the players under the purview of SEBI. Following are some of our suggestions for refining the proposed mechanism:

- Limiting the platform's offerings to only listed debt securities could hinder retail participation in fixed income market. Instead, SEBI should strengthen the rules and regulations for offering unlisted debt securities.
    - o Initially, SEBI could allow the platforms to provide access to unlisted debt securities only to Accredited investors.
    - o SEBI can mandate a set of disclosures which will clearly differentiate listed and unlisted debt and the risk associated with investing in unlisted debt.
    - o As an additional measure SEBI may think of mandating credit rating of unlisted debt securities if the same needs to be offered on online platforms.

Our complete response to SEBI can be accessed here.
To read SEBI's proposal, please click here

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- The existing exchange infrastructure for debt has not been able to bring retail participation to the debt market. Mandating the same infrastructure for online platforms may be detrimental. Instead, SEBI should allow these platforms to have both exchange and OTC transactions. For OTC transactions, SEBI can mandate additional measures for investor protection i.e. reporting of transactions within 15 minutes of execution to the exchanges.
- Request for Quote (RFQ) route may be too cumbersome for retail investors. We have seen many institutional players struggling to use the RFQ route. SEBI can ask these platforms to have an escrow account for OTC transaction to reduce any settlement or operational risks emanating from these platforms.
- SEBI should look to design rules that should be platform agnostic i.e. these rules should be equally applicable for online and offline, so as to create a level playing field.

APPLICABILITY OF SEBI (PROHIBITION OF INSIDER TRADING), REGULATIONS, 2015 TO MUTUAL FUND (MF) UNITS

At present, insider trading rules are applicable to dealing in securities of listed companies or proposed to be listed, when in possession of Unpublished Price-Sensitive Information 'UPSI'. The units of mutual funds (MF) are specifically excluded from the definition of securities under the rules.

But in July 2022 Sebi proposed the applicability of insider trading rules to dealing in mutual fund units after observing misuse of sensitive non-public information pertaining to a scheme of a mutual fund.

The recommendations put forth in the consultation paper for PIT regulations to MF units is a positive step and we recognize the need of regulation after the incidents which transpired in an AMC. Our key suggestions on the proposed mechanism are as follows:

- We suggest that apart from the information items detailed on the UPSI, SEBI may also include large ticket inflow or outflow of funds. Such fund flows can materially impact the NAV or in turn the prices of stocks, especially in smaller AUM schemes or schemes dealing in illiquid securities.
- SEBI May consider disclosure of any corporate bonds purchased and sold within the same month which did not form part of any month end portfolio disclosure to ensure its consistent with the strategy being communicated to investors.

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- Under the definition of 'Designated Persons' all employees working in the Product division of AMC should be added, as they have access to or are directly involved in executing fund related addendums.
- We believe that some of the regulations need to have a bit more leeway, so that the AMC employees or designated persons with good intent, can execute their normal investment transactions without hassle.
- We support the closure period proposal, as this is already being adopted in various organization especially on the equity research or M&A side. This tool helps to effectively neutralize any impact of information arbitrage that the designated persons have over the other investors.
- We have our reservations about including pooled investment vehicle in the insider trading regulations, as we believe that in most of the cases, insiders won't be able to take advantage of the information, but we would suggest that they are treated on par with MF units.

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CONSULTATION PAPER ON GREEN AND BLUE BONDS

Most of the green bonds issued by Indian issuers are listed on off-shore exchanges due to lack of demand for such bonds among the Indian investors and favourable pricing in overseas market.

We appreciate the SEBI's effort to strengthen the regulatory framework for the green securities and understand the concern regarding development of domestic green bond market.

We have the following suggestions which may help in domestic market growth:

- Issuance of Sovereign Green bond can be a watershed movement in developing the domestic Green bond market. It would provide a pricing benchmark to issuers and investors, educate the market participants, bring new set of investors to the Green bond market and scale up the presence and expertise of intermediaries, which could be a catalyst for market development.
- Incentivizing the issuers and investors –
  - The Government or regulator can look to defray some costs of getting audit or impact reporting done for Green bond issuances.
  - To encourage investors to invest in Green bonds, they could be included as a sub-category of banks' priority sector lending.
- Taxonomy – Definitions for green assets are key to safeguarding the market from the risk of 'greenwashing'.
- Green bonds market is very nascent in India. Addition of blue & yellow coloured bonds should only be done once the green bond market takes off. If there is any funding requirement for such bonds, the definition of green bonds can be broadened to include blue & yellow bonds to ensure uniformity in regulations.
- Impact reporting is an integral part of green bond ecosystem and should be made mandatory.

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OTHER ADVOCACY INITIATIVES

EVENTS, PROGRAMS & COMPETITIONS

- Webinar| Practitioners' Insights: Social Ventures and Investment Models
- Webinar| FinTech for Sustainability
- Speaker Session | Funding landscape of Indian Climate tech companies

RESEARCH PUBLICATIONS & BLOGS

- Research Paper: – Computing the Safe Withdrawal Rate for a Retirement Portfolio in India - **Link**
- Blog: Climate-related Financial Risk: Making a Truly Transformational Change in Investment Strategy – **Link**
- Blog: Anatomy of a Sustainable Corporation – **Link**
- Media Piece: Working Women Still at the Receiving End – **Link**
- Webinar Summary: Practitioner's Insights: Incorporating Climate Change Risks and Opportunities in Investment Analysis - **Link**

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