16 November 2021

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ASIFMA AMG comments on SEBI's Consultation Paper on Introducing disclosure norms for ESG Mutual Fund Schemes

On behalf of the Asset Management Group ("**AAMG**") of Asia Securities Industry & Financial Markets Association ("**ASIFMA**")[1], we would like to submit our response to the Securities and Exchange Board of India ("**SEBI**") Consultation Paper on introducing disclosure norms for ESG Mutual Fund Schemes ("**Proposed Rules**"), in the form of general comments and references to specific sections of the proposed changes.

Overall comment

Our members who are predominantly global asset managers, are pleased to have the opportunity to present our views during this consultation. AAMG commends SEBI's continued efforts to improve ESG and sustainability disclosure in India. In fact, last September, we responded to and supported SEBI's proposals in the Consultation Paper on the Format for Business Responsibility and Sustainability Reporting ("**BRSR**").

[1] ASIFMA is an independent, regional trade association with over 100 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, professional and consulting firms, and market infrastructure service providers. Together, we harness the shared interests of the financial industry to promote the development of liquid, deep and broad capital markets in Asia. AAMG advocates stable, innovative and competitive Asian capital markets that are necessary to support the region's economic growth. We drive consensus, advocate solutions and effect change around key issues through the collective strength and clarity of one industry voice. Our many initiatives include consultations with regulators and exchanges, development of uniform industry standards, advocacy for enhanced markets through policy papers, and lowering the cost of doing business in the region. Through the GFMA alliance with SIFMA in the United States and AFME in Europe, AAMG also provides insights on global best practice and standards to benefit the region.

Specific comments

Name of person / entity proposing comments: Name of the organization: Contact details	Yvette Kwan Asset Management Group ("**AAMG**") of Asia Securities Industry & Financial Markets Association ("**ASIFMA**") ykwan@asifma.org +852 2531 6573
Sr. No. | Para of consultation paper **Suggestions / Comments**	**Rationale**
Paragraph 3 (A) (i) Name of the Scheme	
In reference to the clause, "The investment objective shall be as per the Responsible Investment Policy of the AMC", we suggest that the fund's investment objective is separated from the Responsible Investment Policy of the AMC.	The paragraph seems to conflate entity-level disclosures (i.e. about the AMC's sustainability related practices, policies, etc) with product-level disclosures i.e. those for the particular ESG scheme.
Paragraph 3 (A) (iii) Investment Policy	
The wording of the requirement that "investments should be designed to generate a beneficial ESG/sustainability impact alongside a financial return and the AMC should clearly state the intended 'real world' outcome in qualitative terms…" is overly narrow. We would suggest SEBI refrain from using a prescriptive formulation of what is or is not an ESG fund, but instead use a principles-based approach such that the enhanced disclosure requirements apply to any fund that makes specific ESG- or sustainability-related claims.	Not all ESG strategies are designed to deliver impact and this is exactly why impact funds are just one type of strategy available.

Sr. No. | Para of consultation paper Suggestions / Comments	Rationale
Paragraph 3 (A) (iii) Investment Policy (cont.)	
Securities with BRSR disclosures The requirement that AMCs are only to invest in securities which have BRSR disclosures sets a minimal hurdle to qualification, yet also appears quite prescriptive. We believe that most listed companies in India would be in scope of requirements. Yet, there is no guarantee that a company will follow good ESG practices even if they have provided all the required BRSR disclosures. And whilst the BRSR prescribe specific ESG disclosures, they may also not capture all the material ESG issues for a given company, operating in a specific industry and/or region. In summary, there may be limited benefits to revise the Responsible Investment Policy of AMCs to only invest in securities with BRSR disclosures. We would expect that in order to avoid greenwashing, ESG schemes should actually be required to reflect a higher qualifying requirement through its investment strategy, as discussed further in our response to Paragraph 3 (A) (iv) Investment Strategy.	Minimal hurdle: The top 1,000 listed companies making up >99% of market capitalization will be in scope for filing a BRSR mandatorily from the financial year 2022-23. As a result, the Proposed Rules do not appear to provide a significant hurdle for AMCs to meet. This is of course, dependent upon listed companies complying with the BRSR requirements and we appreciate that the Proposed Rules would further encourage listed companies' compliance. ESG best practices rather than compliance mentality: We have recently published a paper entitled 'Investor's ESG Expectations: An Asian Perspective' which specifically focuses on why investee companies should adopt best practice on ESG matters, rather than mere compliance with regulatory requirements on ESG. In fact, we recommend that listed companies apply the TCFD Recommendations not just to climate, but to broader sustainability issues. The framework allows for a comprehensive approach to identify and address material ESG issues for organisations. We hope SEBI will find the ideas in the paper useful in shaping future regulations. A link to the paper is available at https://www.asifma.org/research/asifma-investor-esg-expectations-an-asian-perspective/

Sr. No. | Para of consultation paper **Suggestions / Comments**	**Rationale**
Paragraph 3 (A) (iii) Investment Policy (cont.)	
Investing in overseas securities AMCs are required to only invest in overseas securities which have the global equivalent of a BRSR which appears to be quite prescriptive but does not necessarily equate to better sustainability practices. We think there are minimal benefits to limiting investments in overseas securities to those with the global equivalent of BRSR disclosures, especially given the level of development in standards overseas.	ESG best practices rather than compliance mentality: Please refer to our rationale on 'Securities with BRSR disclosures' above Nascent global standards: Given countries are at differing stages of requiring mandatory sustainability disclosures, and even with the recent establishment of the International Sustainability Standards Board and prototype reporting standards, it will take time for disclosures to become truly meaningful and comparable. In the meantime, such a prescriptive requirement risks compromising investment outcomes
Nomination of BRSR equivalence can be a subjective concept. The Proposed Rules do not specify the global equivalents, nor the criteria used to nominate the global standards.	Nominating global standards: Notwithstanding our concerns above, given that SEBI is a member of IOSCO, and directly involved in international sustainability standard setting discussions, we believe that SEBI is in a better position than the Association of Mutual Funds in India ("AMFI") to specify any global equivalents.
Bond securities The consultation paper makes reference to equity schemes, and we would like to know if bonds will ultimately be covered by the Proposed Rules.	We wonder about the applicability of the Proposed Rules for green bonds issued by an issuer which might not be making a BRSR (or equivalent) disclosure as an entity but is making green bond disclosures. Or where a green bond is issued by a private company without public disclosure obligations.
Sequencing Notwithstanding our comments on the relative merits of adopting the revision to the Responsible Investment Policy in relation to securities with BRSR disclosures (or their equivalent), we think that the effective date from 1 October 2022 should be sequenced to follow the implementation of BRSR rules upon which it is dependent. Grandfathering of existing investments in ESG schemes for a period of one year should similarly be aligned.	The BRSR requirements are only mandatory from the financial year 2022-23, i.e. ending 31 March 2023. The 1 October 2022 requirement for AMCs should be delayed until after BRSR disclosures for the FY2022-23 can be confirmed by AMCs. Similarly, the grandfathering of existing investments in the schemes with no BRSR disclosures until 30 September 2023, allows less than 6 months from year end for AMCs to confirm the availability of BRSR disclosures and / or work on the orderly disposal of investments in those securities without a BRSR, which may compromise investment outcomes of ESG Mutual Fund schemes, impacting investors.

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Paragraph 3 (A) (iv) Investment Strategy	
Examples of Investment Strategy We note the broad definition of ESG strategies which includes negative screening / exclusionary investing, and ESG integration, amongst other **a) Exclusions** Narrow exclusions should not be considered a sustainable investing strategy. **b) ESG integration** For our members, ESG integration, on its own, is not considered a sustainable investing strategy. **Preferred approach** On the other hand, we believe that regulators should not set prescriptive requirements using a one-size-fits-all approach. The better approach is to support a set of common sustainable investing strategies supported by robust disclosures to ensure that investors / stakeholders are clear about what the fund is trying to achieve.	Some of our members believe that a broad definition of ESG strategies in the long run allows a full line-up of ESG products which is beneficial to product innovation and investor choice. A mainstream fund with a narrow exclusion on, for example, banned weapons, has a very low hurdle to qualify as an ESG Mutual Fund scheme. Thus, our members with concerns about greenwashing do not think that a narrow negative screen should qualify as an ESG scheme. We note developments in the region, for example, the Securities and Futures Commission of Hong Kong in its recently released rules for ESG Funds, has disallowed a broader definition of ESG funds to include simple negative screening / exclusionary investing. ESG integration is very commonplace amongst asset managers, especially global players, such that ESG integration is often incorporated across the practices, policies and procedures of the whole organisation and its portfolios. The definition in the Proposed Rules in considering ESG factors *alongside* traditional financial factors means that it is not necessarily binding on the investment decisions process. In other words, like any other risk that is material to the investment, the manager must explicitly consider but can still override the ESG consideration, for example when the risk / returns warrant. It is therefore not appropriate to elevate this particular aspect to become an ESG feature of a fund. We note that Paragraph 4(iv) of the consultation paper refers to the need for industry participants to develop common sustainable finance-related terms and definition in line with global standards. We agree with SEBI's stance and strongly believe this strikes the correct balance by providing clarity and transparency to support investment decision making.

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Paragraph 3 (B) (iii) Periodic Portfolio Disclosures	
a) Environmental focus The requirement to disclose the "contribution to 'positive environmental change' an investor might reasonably expect" is overly prescriptive.	We note that there may be ESG funds that focus on the S (i.e. Social) in ESG.
b) ESG engagement and stewardship ESG engagement and stewardship activities do not apply to all classes of securities.	For bond funds, bondholders typically do not have voting rights
c) Link to BRSR disclosures This requirement for each security to be linked is very onerous.	This is a concern as the product issuer is liable for the accuracy of information provided. Additionally, it would be difficult to fulfil if a fund's portfolio contains over a thousand overseas stocks.
Paragraph 4 General Obligations	
On SEBI's question on whether the General Obligations in paragraph 4 should be mandatory.	
We believe that the concepts in Clause (i) should be a matter of course, and this clause is not required.	Any fund should follow its disclosed strategy and comply with any internal investment policy that is applicable – this shouldn't be any different for an ESG fund, so there should not be an additional requirement
Clause (ii) seems to suggest that all AMCs are now obliged to allocate resources to assess and launch ESG products.	This does not seem appropriate – AMCs should have a choice of what products they offer. Instead, we would encourage SEBI to make it a requirement for AMCs to consider ESG-related risks and opportunities as part of their role as asset managers (similar to the efforts many jurisdictions are undertaking, to make it mandatory for asset managers to carry out ESG integration).

Sr. No. | Other Issues **Suggestions / Comments**	**Rationale**
Deemed compliance We wonder if SEBI would accept global, firmwide policies and disclosures where relevant. If a fund already complies with the ESG disclosure regime in another jurisdiction, e.g. an Article 9 fund under the European Union's Sustainable Finance Disclosure Regulation ("**SFDR**"), our members would wish that they be deemed to have complied with SEBI's ESG scheme disclosure requirements.	For global asset managers that distribute overseas funds into India, we would like to see harmonisation between different regulatory regimes that, for the sake of efficiency and to reduce compliance and reporting burden, would allow the preparation of one set of disclosures that could satisfy the disclosure requirements of each jurisdiction that a fund is distributed into.
Taxonomy We wonder if SEBI intends to develop its own taxonomy or reference the taxonomy in another jurisdiction.	We think that a taxonomy is necessary for a robust and consistent application of an ESG Scheme as proposed.
Benchmarking It is not clear whether SEBI requires that an ESG fund must have a benchmark.	We would not expect this to be a hard requirement as not all investment strategies make reference to benchmarks.