Growing Asia's Markets

6 September 2024

To
The Department of Debt and Hybrid Securities
Securities and Exchange Board of India (SEBI)

Re: ASIFMA Response to Consultation Paper on Expanding the Scope of Sustainable Finance Framework in the Indian Securities Market, 2024

Dear Sir/Madam,

The Asia Securities Industry and Financial Markets Association i.e. ASIFMA[1], on behalf of its members, welcomes the opportunity to provide feedback on SEBI's Consultation Paper on Expanding the Scope of the Sustainable Finance Framework in the Indian Securities Market released in August 2024. We commend SEBI's efforts to expand the sustainable finance landscape and appreciate SEBI's commitment to advancing sustainable finance through a broadened scope of ESG Debt Securities.

We have provided our comments to each of the consultations below:

<u>**Consultation 1:**</u> **Introduction of framework for Social Bonds, Sustainable Bonds and Sustainability-linked Bonds which together with Green Debt Securities are termed ESG Debt Securities as a mode of sustainable finance.**

1) **Whether the proposal to introduce a framework for Social Bonds, Sustainable Bonds and Sustainability linked Bonds (which together with green debt securities are termed ESG Debt Securities) is appropriate and adequate?**

   Response: We are supportive of the proposed expansion of the ESG Debt Securities framework, including Social, Sustainable, and Sustainability-linked Bonds, alongside Green Debt Securities. This is a positive step in aligning India's sustainable finance market with global standards. We do recommend that SEBI refer to these instruments as **Sustainable Debt Securities** instead of **ESG Debt Securities**. This is because the current framework primarily addresses environmental and social aspects, without fully incorporating the governance (G) component of ESG. By adopting the term "Sustainable Debt Securities," SEBI will better reflect the focus of the framework and avoid potential confusion.

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1 ASIFMA is an independent, regional trade association with over 160 member firms comprising a diverse range of leading financial institutions from both the buy and sell side, including banks, asset managers, law 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. ASIFMA advocates stable, innovative, competitive and efficient 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 Global Financial Markets Association ("GFMA") alliance with the Securities Industry and Financial Markets Association ("SIFMA") in the United States and the Association for Financial Markets in Europe ("AFME"), ASIFMA also provides insights on global best practices and standards to benefit the region.

2) **Are there any other international frameworks/guidelines in addition to frameworks listed at Para 3.3, that should be considered?**

Response: The international frameworks cited by SEBI have been widely used and are most accepted and we are supportive of the proposed frameworks. Beyond the frameworks at Para 3.3, we suggest incorporating the ICMA's Handbooks on Climate Transition Finance [2] and Impact Reporting[3] as well as the UN SDGs[4] to strengthen guidance on climate strategies and impact reporting for ESG Debt Securities.

<u>Consultation 2:</u> **Proposals for introduction of sustainable securitised debt instruments**

1) **Whether the proposal to introduce a framework for sustainable securitised debt instruments is appropriate and adequate?**

Response: The introduction of Sustainable Securitised Debt Instruments is a welcome move that reflects SEBI's commitment to expanding the range of sustainable finance products. However, we note that the securitisation market in India remains relatively shallow, and sustainable securitisation is still in its nascent stages globally. We recommend that SEBI examine global precedents[5] of pooled securitisation instruments to assess applicability and viability in the Indian context.

Are there any other frameworks/ guidelines in addition to frameworks listed at Para 4.5, that should be considered by ISF for providing recommendation on sustainable securitised debt instruments?

Response: As of now, there is no single, globally recognized standard specifically for Sustainable Securitised Debt. Accordingly, sustainable securitisation can still align with broader sustainable finance standards and principles that are globally recognized (such as the ICMA principles) and as specified by SEBI.

<u>Consultation 3:</u> **Proposals for Independent External Review**

1) **Whether the proposed requirement of independent external review for ESG Debt Securities and Sustainable Securitised Debt Instruments is appropriate and adequate?**

Response: We acknowledge SEBI's intent to strengthen the credibility of ESG Debt Securities through mandatory independent external reviews. We propose the consideration of financial incentives to offset the higher costs of sustainable bonds and securitizations, such as those incurred for independent external reviews. These incentives would help level the playing field between sustainable and conventional products, encouraging issuers to favor sustainable options and supporting India's ESG objectives. We recommend SEBI's action on this to facilitate the growth of a competitive sustainable finance market.

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[2] Climate-Transition-Finance-Handbook-CTFH-June-2023-220623v2.pdf (icmagroup.org)

[3] Harmonised-Framework-for-Impact-Reporting-Green-Bonds_June-2022-280622.pdf (icmagroup.org)

[4] THE 17 GOALS | Sustainable Development (un.org)

[5] Example: The burgeoning Mainland green ABS market and the potential support from the Hong Kong market (hkex.com.hk)

2) **Whether SEBI registered ESG Rating Providers could also be permitted to undertake such independent external review?**

Response: Conflict of Interest Concerns:

We are supportive of measures and approaches that prevent conflicts of interest without necessarily excluding designated agencies (e.g., ESG Rating Providers). Excluding these providers could complicate the industry and limit market competition. The mandatory segregation of services and related processes within an ESG service and rating provider could be an effective solution

Some ESG Scoring Providers offer Second Party Opinions (SPOs) as a distinct service, which requires a separate set of qualifications and a proven track record. To ensure the integrity of the process, ESG Rating Providers should be required to provide evidence of their capability and experience in delivering SPOs independently from their scoring services.

In conclusion, we recommend that SEBI consider allowing ESG Rating Providers to perform external reviews, with the condition that they continue to meet the regulatory standards and manage conflicts of interest effectively. This would help maintain a diverse, competitive, and high-integrity market for independent external reviews.

Flexibility for International Verifiers:

Given that many issuers in India have global operations and frequently issue ESG instruments in international markets, we recommend that SEBI allow international ESG service providers, to offer verification services. Limiting verifiers to those registered locally with SEBI could restrict access to experienced providers, potentially hindering the effectiveness of the framework.

Should you have any questions, please do not hesitate to contact us Diana Parusheva (dparusheva@asifma.org), Managing Director, Head of Public Policy and Sustainable Finance at ASIFMA.

Yours faithfully

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