PRESS RELEASE

Framework for Disclosures by Fund Management Entities for Environmental, Social or Governance (ESG) Schemes

IFSCA, with the aim to establish GIFT-IFSC as a hub for various sustainable finance related activities, has already issued/notified the following regulatory frameworks/requirements:

- Disclosure and listing of Green Bonds, Social Bonds, Sustainability Bonds and Sustainability Linked Bonds
- Sustainability reporting by listed companies having market capitalization above USD 50 million
- IBUs and Finance Companies to have board approved framework on sustainable financing and to have at least 5% of their loan assets towards sustainable sectors
- Sustainability related Disclosures by Fund Management Entities managing corpus / AUM above USD 3 Billion

To tap into the increasing investor awareness regarding the social and ecological impact of their investments, asset managers globally, have been focusing on offering investment products relating to various aspects concerning sustainability. According to Bloomberg Intelligence, by 2025, over a third of assets under management globally, shall pertain to ESG.

In order to promote consistency, comparability and reliability in disclosures concerning ESG schemes and ensure ESG schemes in IFSC are true to their label, IFSCA has issued a circular today requiring ESG schemes to make certain initial and periodic disclosures. Further, norms have been prescribed for ongoing monitoring and performance evaluation. The framework prescribed by IFSCA is principle-based, and largely aligned with international best practices. Further, in order to set regulatory expectations, IFSCA has also provided detailed guidance notes and illustrations.

The salient features of the circular are as under:

1. **Applicability:** The circular is applicable to such retail schemes, exchange traded funds (ETFs), restricted schemes and venture capital schemes, which:
    a. have terms, such as ‘Environment’, ‘Social’, ‘ESG’, ‘Green’, ‘Sustainability’ or any combination thereof or similar terms, incorporated in their names, or
    b. represent or market themselves as ESG focused schemes.

2. **Initial Disclosures:** For every ESG scheme launched by a FME, the FME shall ensure the following:

a. Name of the Scheme: The name of an ESG scheme should be reflective of its ESG focus and consistent with its ESG-related investment objectives and investment strategy.
b. Investment Objective: FME should transparently disclose the nature and extent of the scheme's ESG-related investment objectives, including details of the primary components of sustainability addressed by the scheme
c. Investment Strategy: Detailed explanation of type of investment strategy, including ESG-related investment strategy, that FME intends to pursue which amongst others may be towards Integration, Impact Investing, Engagement, Transition for hard-to-abate and other emission-intensive sectors, etc.
d. Investment Processes: FME shall disclose the methodology for processes deemed relevant for ESG investments (specifically towards initial investments, monitoring, engagement and exits).
e. Risks and Risk Management Practices: FME managing an ESG scheme should disclose all the specific risks that arise on account of the scheme's pursuit of ESG-related investment objectives, related investment strategies and processes in addition to all the other material risks faced by the scheme.
f. Benchmark: Wherever feasible, FME may designate a reference benchmark for the ESG scheme to measure the attainment of its ESG focus and/or financial performance vis-à-vis the benchmark.

3. **Periodic Disclosures for ESG Schemes:** For every ESG scheme launched by a FME, it shall disclose to the Authority and investors, on a half-yearly basis for a retail scheme and on annual basis for other types of schemes, the compliance with the stated ESG-related investment objectives of the scheme, ESG-related performance, actual proportion of the investable corpus / assets under management invested as per the stated ESG-related investment objectives, Key findings/Major observations of Internal audits or third-party validation, if any, etc.

4. **Monitoring and Compliance:** The FME should undertake, on a half-yearly basis for a retail scheme and on annual basis for other types of schemes, assessment of their compliance with the stated ESG-related investment objectives of the schemes, measurement of the ESG-related performance of the scheme by evaluating any pre-determined KPIs, expected outcomes and other relevant factor and submit a declaration.

The detailed framework for ESG Schemes may be accessed at https://ifsca.gov.in/Circular

With this framework, IFSCA lays down standards and practices (including guidance) for FMEs launching and managing ESG schemes. Given the ongoing evolution of ESG investing landscape, IFSCA will continue to monitor the developments in this area and based on experience gained may supplement/update this Circular from time to time.

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Gandhinagar