Report of the Expert Committee on Sustainable Finance

International Financial Services Centres Authority

03 October 2022

Contents

1. Abbreviations and Acronyms

Abbreviations	Definition
IFSCA	International Financial Services Centres Authority
ABS	Asset Backed Securities
ADB	Asian Development Bank
APAC	Asia Pacific
APLMA	Asia Pacific Loan Market Association
ASEAN	Association of Southeast Asian Nations
AUM	Assets Under Management
BCBS	Basel Committee on Banking Supervision
BEE	Bureau of Energy Efficiency
BoD	Board of Directors
BRSR	Business Responsibility and Sustainability Report
BSE	Bombay Stock Exchange
CCFU	Climate Change Finance Unit
CDP	Climate Disclosure Project
CEEW	Council on Energy, Environment and Water
CEO	Chief Executive Officer
CFA	Chartered Financial Analyst
CGT	Capital Gains Tax
CII	Confederation of Indian Industry
COP	Conference of the Parties
CSSF	Commission de Surveillance du Secteur Financier
CSR	Corporate Social Responsibility
CSTEP	Centre for Study of Science, Technology and Policy
DIFC	Dubai International Financial Centre
DFI	Development Finance Institutions
EIB	European Investment Bank
ESG	Environmental, Social, and Governance
ESMA	European Securities and Markets Authority
EU	European Union
EV	Electric Vehicle
FC	Finance Company
FC4S	International Network of Financial Centres for Sustainability
FI	Financial Institution

FICCI	Federation of Indian Chambers of Commerce & Industry
FME	Fund Management Entities
FSB	Financial Stability Board
FY	Financial Year
GARP	Global Association of Risk Professionals
GFIN	Global Financial Innovation Network
GHG	Greenhouse Gas
GIFT	Gujarat International Finance Tec-City
GoI	Government of India
GRI	Global Reporting Initiative
GST	Goods and Services Tax
HKQAA	Hong Kong Quality Assurance Agency
IBU	IFSC Banking Unit
ICAI	Institute of Chartered Accountants of India
ICMA	International Capital Market Association
IFSC	International Financial Services Centre
IIDL	India International Depository IFSC Limited
IIM	Indian Institute of Management
ILS	Insurance-linked Security
India ICC	India International Clearing Corporation (IFSC) Limited
India INX	India International Exchange (IFSC) Limited
InvITs	Infrastructure Investment Trusts
IOSCO	International Organization of Securities Commissions
IPCC	Intergovernmental Panel on Climate Change
KMP	Key Managerial Person
LGX	Luxembourg Green Exchange
LMA	Loan Market Association
LSTA	Loan Syndications and Trading Association
LuxSE	Luxembourg Stock Exchange
MAT	Minimum Alternate Tax
MCA	Ministry of Corporate Affairs
MDB	Multilateral Development Bank
MoU	Memorandum of Understanding
NAPCC	National Action Plan on Climate Change
NASSCOM	The National Association of Software and Service Companies
NDC	Nationally Determined Contribution
NGFS	Network for Greening the Financial System

NICCL	NSE IFSC Clearing Corporation Limited
NIIF	National Investment and Infrastructure Fund
NIPFP	National Institute of Public Finance and Policy
NISM	National Institute of Securities Markets
NSE	National Stock Exchange
NSE IFSC	NSE IFSC Limited
OECD	The Organisation for Economic Co-operation and Development
OTC	Over the Counter
PRB	Principles for Responsible Banking
PSL	Priority Sector Lending
RBI	Reserve Bank of India
RBS	The Royal Bank of Scotland
REITs	Real Estate Investment Trusts
SASB	Sustainability Accounting Standards Board
SBI	State Bank of India
SDG	Sustainable Development Goal
SEBI	Securities and Exchange Board of India
SEZ	Special Economic Zone
SF	Sustainable Finance
SGB	Sovereign Green Bond
SIDBI	Small Industries Development Bank of India
SLB	Sustainability-linked Bond
SLL	Sustainability-linked Loan
SME	Small and Medium-sized Enterprise
SPT	Sustainability Performance Target
SRI	Socially Responsible Investing
TCFD	Task Force on Climate-related Financial Disclosures
TCFR	Task Force on Climate-related Financial Risks
ToR	Terms of Reference
UK	United Kingdom
UN	United Nations
UNEP	United Nations Environment Program
UNFCCC	United Nations Framework Convention on Climate Change
USA	United States of America
VCMI	Voluntary Carbon Markets Integrity Initiative
ICVCM	The Integrity Council for the Voluntary Carbon Market
VRET	Virescent Renewable Energy Trust
WEF	World Economic Forum
WMO	World Meteorological Organisation

2. Letter from Chair to Chairperson, IFSCA

Climate change, undoubtedly, is one of the biggest challenges of our time. In this context, the Paris Agreement (2015) was a landmark achievement in bringing together all nations to fight against climate change. This got further momentum in the recently concluded Glasgow summit (COP26), where Glasgow Climate Pact was adopted. Despite these efforts, according to WMO, the average global temperature in 2021 rose to 1.11^0 C above pre-industrial levels (1850-1900). Further, there is a 50 percent chance of average global temperature reaching 1.5^0 C above pre-industrial levels in the next five years. As a result, the global economy faces significant risks due to extreme climatic conditions.

The Hon'ble Prime Minister of India during his speech in Glasgow summit, called for a movement called LIFE (Lifestyle for Environment) and subsequently launched the global initiative for LIFE campaign on the World Environment Day. The goal of this campaign is to encourage an eco-friendly lifestyle. This in totality reflects India's approach towards climate change and sustainable lifestyle. India has shown global leadership in the fight against climate change and has committed itself to achieve net-zero emissions by 2070. For India to meet its climate goals and to achieve its net-zero commitments, the country would need to mobilise investments worth over $10 trillion and a significant share of such investments needs to come from international investors. GIFT-IFSC, being an offshore jurisdiction within India, is uniquely positioned to mobilize international capital for India and beyond.

In this context, I would like to appreciate the Chairperson, IFSCA, Shri Injeti Srinivas, for constituting an expert committee on Sustainable Finance to devise a roadmap to develop GIFT-IFSC as a global hub of sustainable finance. The committee has gone in detail to understand the entire ecosystem of sustainable finance and accordingly, provided its recommendations on policy, regulations, products, etc. These recommendations have been classified as short, medium, and long-term depending upon their nature. I firmly believe that implementing these recommendations in letter and spirit would certainly help GIFT-IFSC in mobilizing global finance through IFSC and put IFSC on the global map of sustainable finance.

I would like to sincerely thank the Chairperson of IFSCA for providing me the opportunity to chair this highly experienced expert committee comprising of global leaders in the areas of sustainable finance and climate change.

Thanking You.

C.K. Mishra

3. Constitution of Committee

IFSCA constituted an Expert Committee to recommend an approach towards development of Sustainable Finance Hub and provide a road map for the same. The expert committee is chaired by Shri C.K. Mishra, Former Secretary to Government of India, Ministry of Environment, Forest & Climate Change. The committee consists of leaders across the sustainable finance spectrum, including international agencies, standard setting bodies, funds, academia, and consultancies. The key Terms of Reference of the committee are as follows:

i. To study the current regulatory practices in Sustainable Finance (SF) across major International financial jurisdictions and recommend a robust framework to develop a world-class sustainable finance hub at IFSC.

ii. To identify existing and emerging opportunities in Sustainable Finance for GIFT-IFSC to act as a gateway to meet India's requirements.

iii. To recommend a short, medium, and long-term vision/roadmap on sustainable finance.

S No	Name	Designation	Capacity
1	Mr. C.K. Mishra	Former Union Secretary to Government of India, Ministry of Environment, Forest & Climate Change	Chair
2	Mr. Sujoy Bose	MD & CEO of the National Investment and Infrastructure Fund of India	Member
3	Prof. Amit Garg	Professor, IIM Ahmedabad	Member
4	Mr. Sean Kidney	CEO, Climate Bonds Initiative	Member
5	Mr. Arunabha Ghosh	CEO, Council on Energy, Environment and Water (CEEW)	Member
6	Mr. Stephen Nolan	Managing Director, Financial Centres for Sustainability (FC4S) Network	Member
7	Ms. Namita Vikas	Founder and Managing Director, auctusESG	Member
8	Mr. Prathmesh Raichura	Partner, ESG – Advisory Services, KPMG in India	Member
9	Mr. V Balasubramaniam	MD & CEO, India International Exchange (IFSC) Limited (India INX)	Member
10	Mr. Manoj Kumar	Executive Director, SEBI and Former Executive Director, IFSCA	Member Secretary

4. Acknowledgements

The Committee would like to sincerely thank Mr. Injeti Srinivas, Chairperson, IFSCA for constituting the expert committee on Sustainable Finance and providing this great opportunity for the members to discuss, deliberate and recommend actions to IFSCA towards its goal of developing GIFT-IFSC into an international sustainable finance hub.

The committee would like to thank Mr. Manoj Kumar, Executive Director, Securities and Exchange Board of India (former Executive Director, IFSCA) for leading the initiatives and streamlining actions on Sustainable Finance. Mr. Kumar ensured complete support to the functioning of the committee throughout the discussion and deliberation process.

The committee acknowledges the support of Mr. Akhilesh Tilotia, Ms. Anya Bharadwaj and Ms. Saumya Bisaria from NIIF; Ms. Smitha Hari from auctusESG; Dr. Vidhee Avashia, Mr. Harshvardhan Valluru, Mr. Anand Patil, and Mr. Agam Kalra from IIM-Ahmedabad; Ms. Swasti Saraogi from KPMG; and Ms. Hetal Kotak from India INX for providing valuable insights and support to the committee.

The committee conveys its deep gratitude to all the stakeholders and special invitee members from the financial sector including Ms. Suranjali Tandon (NIPFP) and Ms. Shagoofa Khan (NIIF) for providing their valuable insights on the emerging trends and latest developments.

The committee would like to express great appreciation and sincerely thank the entire IFSCA Sustainable Finance team comprising of Mr. Sayed Zeeshan Ali (DGM), Abhilash Mulakala (DGM), Ms. Riddhi Bhandari (DGM), Mr. Chintan Panchal (AM), Mr. Lobhas Khairnar (AM), and Mr. Saurabh Kumar (AM) for their valuable inputs, robust coordination, and extensive support towards finalisation of the recommendations.

C.K. Mishra

Sujoy Bose

Amit Garg

Sean Kidney

Arunabha Ghosh

Stephen Nolan

Namita Vikas

Prathmesh Raichura

V Balasubramaniam

Manoj Kumar

5. Executive Summary

Climate change is one of the biggest challenges of our time. The world is observing increased climate-related extremes such as heatwaves, floods, droughts etc. causing significant vulnerability to humans, ecosystem, and the infrastructure. In addition to physical risks, there is a growing impact on economies and the global financial system. In this context, the Paris Agreement (2015) was a landmark achievement in bringing together all nations to undertake ambitious efforts to combat climate change.

As countries transition towards a low carbon economy, businesses also face increased risk in the form of changes in government policies, technological upgrades, shifting market preferences and consumer demand etc. It becomes vital for each institution to understand, identify, and incorporate these risks within their businesses. The financial institutions across the world are increasingly incorporating non-financial factors - Environmental, Social and Governance (ESG) to identify material risks and growth opportunities as part of their strategy and risk management.

Sustainable Finance refers to this process of taking ESG considerations into account when making investment decisions, leading to more long-term investments in sustainable economic activities and projects (EU Definition). Regulatory and policy initiatives across the world are focused on increasing sustainable financing to achieve the climate transition. In this regard, taxonomy, standards, and mandatory non-financial disclosures are some of the major initiatives by organisations across the world.

India has shown global leadership in the fight against climate change and has committed itself to achieve net-zero emissions by 2070. To meet this target, India will require investments worth over $10 Trillion, as per a report by CEEW, and a significant portion of this investment needs to be financed through global capital.

GIFT-IFSC, an offshore jurisdiction within India, has the potential to be a gateway for meeting this investment gap in India and the region. IFSCA, as a unified regulator of the IFSC, has taken numerous initiatives to develop policies and regulation, necessary infrastructure, competitiveness, and strategic partnerships to develop an enabling ecosystem at IFSC.

The expert committee, set-up to devise a roadmap for IFSCA to develop GIFT-IFSC as a global hub for sustainable finance, delved into the global landscape of sustainable finance and provided recommendations across the areas of policy and regulations, products, capacity building, and outreach exercise. This report will act as a guiding document in the long-term efforts of IFSCA towards increasing sustainable finance through GIFT-IFSC.

6. Introduction

6.1 Climate Scenario

According to WMO's new climate update, in the year 2021, the average global temperature rise was about 1.11 ^{0}C above pre-industrial levels (1850-1900)[1]. Further, there is a 50:50 chance of average global temperature reaching 1.5 ^{0}C above pre-industrial levels in the next five years[2]. Thus, climate action failure, extreme weather, and biodiversity loss are expected to be the top global risks over the next decade[3].

The global economy faces significant risks due to extreme climatic conditions. As per WMO's estimate, India lost $87 billion, in 2020, from extreme weather events such as tropical cyclones, floods, and droughts.

Climate-Related Financial Risks

Climate change poses major risk to financial sectors across the globe. According to the Basel Committee, climate-related financial risks are risks that arise from climate change or from efforts to mitigate climate change, their related impacts, and their economic and financial consequences. The Basel Committee on Banking Supervision has set up TFCR and has come up with climate-related financial risk assessment methodologies. Climate-related financial risks essentially consist of (i) physical risk and (ii) transition risk.

Physical risks directly impact banks and financial institutions through their exposure to businesses, households, and countries. Increased risk of default, falling asset quality, volatility in prices, broken supply chains are some of the consequences of exposure to physical risks. Such impact can occur both in the retail as well as wholesale portfolio. For example, on the retail side, this can occur when a bank has provided a home loan to finance a house in a flood-prone area. On the wholesale side, this is more apparent, with some sectors having greater ramifications. For example, portfolios in sectors like agriculture, beverages, construction, and logistics are significantly impacted by weather-related events.

Transition risks mainly arise while moving towards a low-carbon economy. These risks include changes in government policies, technological upgrades, shifting market preferences and consumer demand or changes in norms. Transition risks essentially reflect compliance costs when we embark upon the process of adjustment towards a low-carbon economy. Banks could be indirectly impacted due to these changes, especially in the case of exposure to resource-intensive companies.

[1] 2021 one of the seven warmest years on record, WMO consolidated data shows
[2] WMO Update: 50:50 chance of global temperature temporarily reaching 1.5°C threshold in next five years
[3] The Global Risk Report 2021

Further, as far as physical and transition risks are concerned, banks do look at certain risks like monsoon patterns in agriculture, but currently, there is no systematic or regulatory framework that mandates this. Therefore, the expected scale and synchronous nature of transitional changes, have the potential to make a much larger impact on the global macro and microeconomy, than anticipated.

Impact of climate change on banks and financial institutions in India

The RBI in its report on 'Trend and Progress of Banking in India' has identified climate related financial risk as a medium-term risk, which would need to be addressed through carefully crafted strategies[4]. Based on climate-related data provided by SBI to CDP, it is estimated that 14% of debt at India's leading banks and FIs is at risk from extreme weather events.

Global Actions on Climate Change

Actions are being taken to address climate change at the global level. The evolution of action on climate change goes back to 1972, where various stakeholders came together at the UN Conference on Human Environment. Following this, in 1992, at the Rio Earth Summit, countries came together to rethink their economic growth pathways, advance social equity, and ensure environmental protection. In 1997, the Kyoto Protocol was adopted in Japan. Furthermore, in 2015, COP21 of UNFCCC, marked a landmark moment in the history of climate change in the form of a legally binding Paris Agreement to tackle climate change. Overall, 190 countries have signed the Paris agreement. This commitment of Paris Agreement is reflected in the recently concluded COP26 at Glasgow.

Outcomes of COP26

In 2021, the landmark event COP26 took place in Glasgow, UK. It had four focus areas – 1. adaptation, 2. mitigation 3. collaboration, and 4. mobilising finance, for climate action as a priority.

The participating nations adopted the Glasgow Climate Pact which included commitments to move away from coal power, halt and reverse deforestation, and speed up switch to electric vehicles. The developed countries committed to reach the $100 billion climate finance goal by 2023 and agreed for an increased post-2025 climate

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[4] Report on trend and progress of banking in India 2020-21

finance goal. Record amounts of adaptation finance have been pledged, including committing to doubling 2019 levels of adaptation finance by 2025[5].

India at COP26

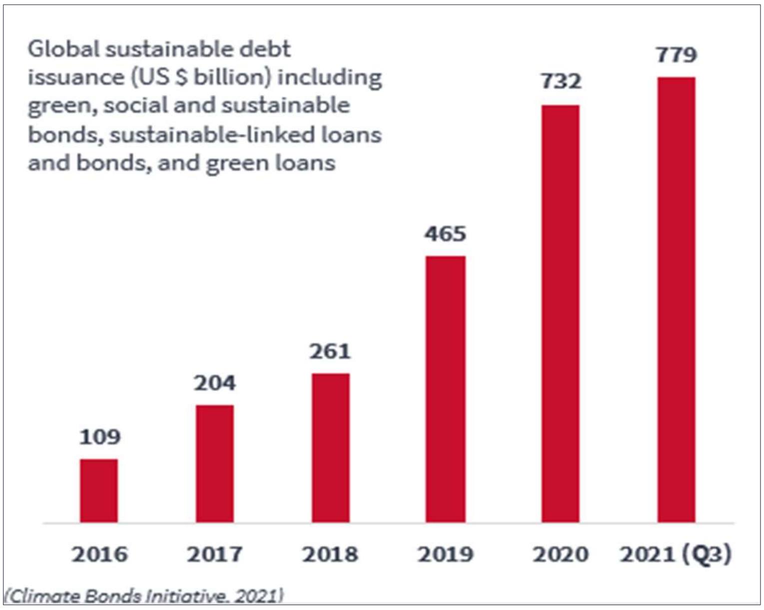
In COP26, India has targeted to achieve net zero emissions by 2070. In addition, As per the updated NDC, India now stands committed to reduce Emissions Intensity of its GDP by 45 percent by 2030, from 2005 level and achieve about 50 percent cumulative electric power installed capacity from non-fossil fuel-based energy resources by 2030[6].

6.2 Need for Sustainable Finance

Sustainable finance is the investment decision that actively evaluates ESG factors of economic activity or project. It plays a vital role in meeting the net zero aspirations of the nations by shifting capital towards sustainable projects.

State of Sustainable financing

Globally, debt is the most popular instrument for sustainable financing. In the first three quarters of 2021, the combined sustainable debt issued was $779 billion[7]. With regards to green bond issuance in India, the year 2021 was exceptional with the issuances of $6.4 billion of sustainable bonds in 2021, the strongest issue since the first issue in 2015[8].



Source: Climate Bonds Initiative

5 COP26-Presidency-Outcomes-The-Climate-Pact
6 Updated Nationally Determined Contribution
7 Sustainable Debt Market Summary Q3 2021
8 Climate Bonds Initiative Report

Sustainable Finance Gap

Despite the recent growth in sustainable financing, an analysis from McKinsey suggests US $9.2 trillion total annual green investment is needed to reach the net-zero goal by 2050[9]. As per a report by CEEW, India would require cumulative investments of US $10.1 trillion to achieve net-zero emissions by 2070. The study also estimates that there is a high chance that India could face a substantial investment deficit of US $3.5 trillion[10].

6.3 Developments in Sustainable Finance

Addressing the issue of climate change necessitates unparalleled global cooperation across borders. Governments, regulators, and non-profit organisations have played a major role, globally, in developing taxonomies, disclosures, and products to reduce the investment gap through sustainable finance.

1. **Taxonomies**

   To meet climate and energy targets and to mobilise finance, countries are coming up with taxonomies to direct investments towards sustainable economic activities. The EU came up with the EU Taxonomy in 2020, which is essentially a framework to help investors, companies, issuers, and project promoters, to steer towards a low-carbon, resilient and resource-efficient economy through a unified classification system of what is green and sustainable. India is working on its own sustainable finance taxonomy, which would bring a lot more standardisation and discipline to the market.

2. **Non-Financial Disclosures**

   While frameworks such as the GRI and SASB have a broader ESG focus for disclosures, TCFD, in particular, is principally focused on climate. In April 2022, the UK became the first G20 country to enforce mandatory TCFD reporting for its largest businesses and FIs. Regulators in other geographies, such as the EU, Brazil, Hong Kong, Japan, Singapore, and Switzerland have also issued mandatory guidance based on TCFD recommendations. New Zealand passed the world's first climate change disclosure law for its banks.

3. **Sustainable Finance Products**

   Sustainable finance instruments have gained prominence over the past few years. Innovative products including green/sustainability bonds, sustainability linked loans, green deposits, mechanisms such as blended finance, and risk-sharing facilities, continue to enhance the capital flows towards sustainable projects.

[9] The economic transformation: What would change in the net-zero transition
[10] CEEW's report on 'Investment Sizing India's 2070 Net-Zero Target'

Regulatory and policy initiatives in India towards sustainable finance

Since 2007, India has started emphasising on green/sustainable finance. The RBI released a regulation in 2007 titled "Corporate Social Responsibility, Sustainable Development, and Non-financial Reporting — Role of Banks,"[11] which highlights the significance of global warming and climate change in the context of sustainable development. The NAPCC was created in 2008 with the objective of laying out a broad policy framework for mitigating climate change impacts. The CCFU was established in 2011 within the Ministry of Finance as a coordinating body for India's different green finance organisations.

Since 2012, the SEBI has made it essential for the top 100 listed businesses on the BSE and NSE based on market capitalization to publish annual corporate responsibility reports, which it has updated from time to time. In May 2017, SEBI issued guidelines for green bond issuance specifying the disclosure requirements. From FY 2022-23, SEBI mandated the top 1000 listed companies as per market capitalization to disclose material ESG risks and opportunities, the financial implications, and their approach to mitigating or adapting to the risks through BRSR in their annual reports. Also, recently SEBI has proposed guidelines to direct ESG fund managers to have at least 80% of their total assets in sustainability-themed securities from October 2022[12].

6.4 Opportunity for GIFT-IFSC

There is a significant investment gap, as highlighted above, and a necessity for further regulatory initiatives to mobilise the capital towards sustainable sectors. A significant portion of this investment gap needs to be financed through foreign investments. This has presented itself as a huge opportunity for GIFT-IFSC and it can therefore serve as the centre-stage for mobilising sustainable finance in India and beyond.

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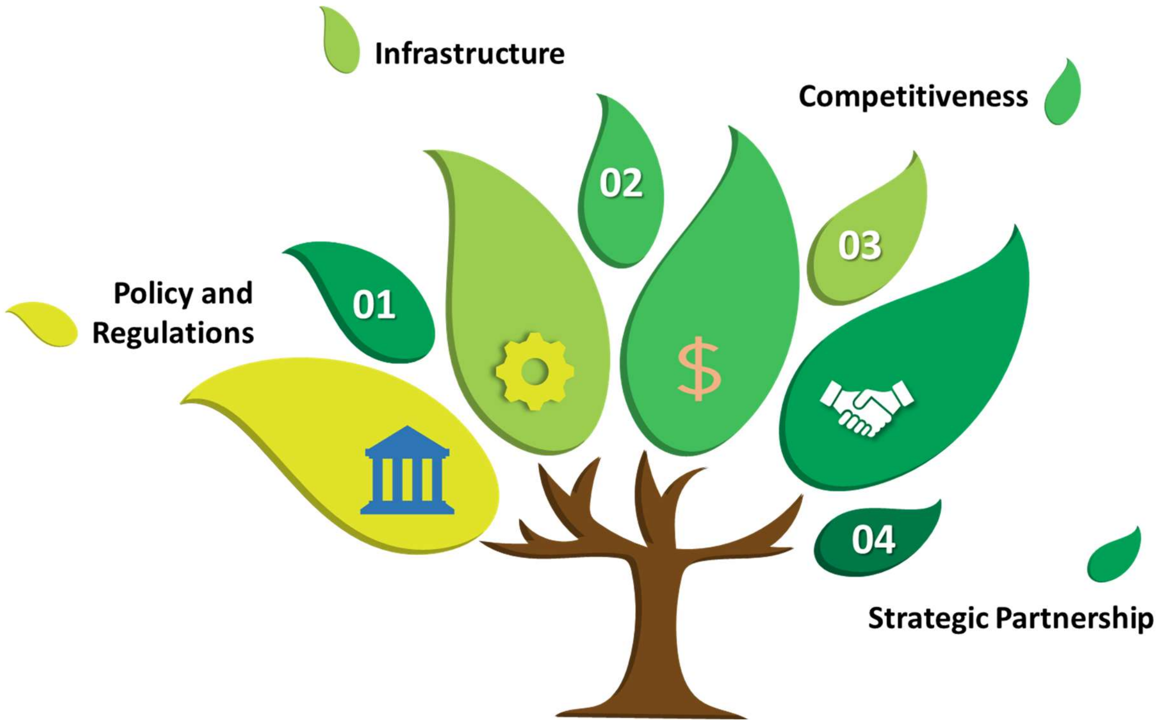
[11] Corporate Social Responsibility, Sustainable Development and Non-Financial Reporting
[12] Sebi proposes new norms for mutual funds' ESG investments

7. GIFT-IFSC: A global Sustainable Finance Hub

The dynamic landscape, best-in-class regulatory environment, competitive tax regime, along with government support, has enabled GIFT-IFSC to position itself as a potential global hub of sustainable finance. This is also reflected in the Union budget 2022-23 of Government of India which mentioned that "Services for global capital for sustainable & climate finance in the country will be facilitated in the GIFT City."

GIFT-IFSC has potential to become the gateway for mobilising international capital into India for sustainable infrastructure projects, electric mobility, renewable energy, energy efficiency, among others. Some of the pillars essential in developing GIFT- IFSC as a global hub for sustainable finance are mentioned below[13].



7.1 Pillar 1: Policy & Regulations

Efficient regulations, policies, and guidelines would go a long way in establishing an enabling ecosystem for development of an international sustainable finance hub at GIFT-IFSC. Comparable and consistent regulations, aligned with international best practices, would create a conducive environment for international capital to flow through IFSC for

[13] Template Credits: PresentationGo

potential deployment into climate mitigation and adaptation projects in India and beyond.

The committee observed that while IFSCA has already notified regulations and guidelines around sustainable finance objectives, it is essential for IFSCA to keep abreast with evolving international standards. As a unified regulator, IFSCA through regulations and policies, can create synergies across the financial markets for the market participants. Some of the regulations that IFSCA has notified, to enable sustainable financing, are mentioned below.

Listing Regulations on ESG-Labelled Debt securities

IFSCA has notified the IFSCA (Issuance and Listing of Securities) Regulations, 2021 ("Listing Regulations"), a unified framework for listing of various types of securities on the IFSC exchanges. The IFSCA's Listing Regulations has a dedicated section on issuance and listing of ESG debt securities including Green Bonds, Social Bonds, Sustainable Bonds and Sustainability-linked Bonds (SLBs).

Important features of the ESG-labelled Debt Listing framework are mentioned below:

i. The funds raised through ESG labelled securities are to be utilised for financing projects aligned with any of the recognized frameworks such as International Capital Market Association Principles/ Guidelines, Climate Bonds Standard, ASEAN Standards etc.

ii. It is mandatory for the issuers to appoint an independent external reviewer.

iii. The issuers shall make additional disclosures in the offer documents such as ESG objectives, details regarding evaluating and selecting the projects and/ or assets, proposed utilisation of the proceeds, systems, and procedures for tracking the deployment of proceeds etc.

iv. Post listing, the issuers shall provide additional disclosures, for use-of-proceeds bonds, on utilisation of proceeds, allocation report, and impact report annually, till full allocation of capital.

v. In the case of SLBs, the issuer shall provide additional disclosures annually on the performance of selected Key Performance Indicators and a verification report by an independent external reviewer outlining the performance against the SPTs and related impact on debt structural characteristics.

Sustainability Reporting by companies listed on IFSC Exchanges

IFSCA, to encourage sustainability reporting, has mandated that every IFSC-listed company (having market capitalization of $50 million or more) are required to disclose to the stock exchanges a sustainability report with respect to ESG factors every year. The sustainability report shall be based on:

i. internationally accepted reporting frameworks such as GRI, SASB, TCFD etc., or

ii. standards prescribed by MCA, GoI from time to time.

Fund Regulations

To encourage FMEs to incorporate sustainability-related risks and opportunities in investment-decision making, IFSCA has included a chapter on ESG in IFSCA (Fund Management) Regulations 2022. The regulations mandate large FMEs (AUM above $3 billion) to have additional requirements, mentioned below, related to ESG factors.

i. Governance	Establish policy on governance around material sustainability-related risks and opportunities.
ii. Risk management	Disclose how the fund manager identifies, assesses, and manages material sustainability-related risks.
iii. Investment Strategy	Establish and disclose the process of factoring sustainability-related risks and opportunities into fund manager's investment strategies.

In addition, a FME that launches a scheme related to ESG, shall make full disclosures regarding the objective, investment policy, strategy, material risk, benchmark etc. A separate circular/guideline for ESG labelled funds is expected to be issued in FY 2022-23 by IFSCA.

Guidance framework on sustainable and sustainability-linked lending

IFSCA has issued a framework to promote sustainable and sustainability-linked lending by Banking Units (IBUs) and Finance Companies (FCs). The framework is intended to promote lending to green and sustainable projects by IBUs/ FCs. The core components of the framework are highlighted below:

i. The framework mandates IBUs and FCs to develop a comprehensive Board approved policy on sustainable financing. This framework will in turn allow lenders to label long-term and short-term financing towards green/sustainable activities.

ii. Further, such entities shall have at least 5 percent of their incremental loans and advances directed towards green/social/sustainable/sustainability-linked sectors/facilities, starting from financial year 2023-24.

iii. The guidance framework proposes to duly factor in the principles laid down in the international standards/principles issued by LMA, ICMA, CBI among others, in order to ensure consistent methodology for use across the loan market and preserve the integrity of the green/social/sustainable market while it develops.

iv. The core components that the Board approved policy shall cover, for the purpose of green/social/sustainable lending includes borrower assessment process, reporting mechanisms, and monitoring process among others.

v. The framework also mandates the IBUs and FCs/FUs to report on a half-yearly basis the details of lending under green/social/sustainable/sustainability-linked categories.

7.2 Pillar 2: Infrastructure

Infrastructure lays the foundation for a financial jurisdiction. IFSC, being an offshore jurisdiction, has the unique advantage of providing financial services across capital markets, banking, and insurance. The enabling regulations are complemented with important institutions, established at the IFSC, that form the critical infrastructure for facilitating a well-functioning financial market.

Stock Exchanges, Depositories, and Clearing Corporations ensure market integrity and efficiency in the capital markets. At IFSC, there are two international stock exchanges - India INX and NSE IFSC, subsidiaries of BSE and NSE respectively, which facilitate listing and trading of financial securities. Two Clearing Corporations have been set-up India ICC (providing services to India INX), and NICCL (providing services to NSE IFSC), which are also recognised by ESMA, the securities market regulator for the European Union. An IIDL has also been established with an aim to provide depository services for global investors.

India INX signed a cooperation agreement with Luxembourg Stock Exchange on June 01, 2022 through which the two exchanges will enhance the visibility of listed Indian securities towards international investors by facilitating admission of such securities listed on LuxSE. The agreement builds on the Memorandum of Understanding signed between the two institutions in November 2020, which placed a specific focus on advancing green finance in India. The green corridor opportunity established with this dual listing cooperation agreement between India INX and LuxSE will go a long way in attracting more issuers from India and the region and provides access to green capital from international investors.

Banks play a central role in facilitating commerce, across borders, through lending and other financial services. IFSC has a vibrant banking eco-system providing services to Indian and foreign clients. A total of 20 banking units have been operationalized, including all major Indian banks, and global banks such as Standard Chartered, HSBC, Barclays, and JP Morgan.

Fund management is gaining prominence at IFSC with the notification of unified Fund Management Regulations which creates the flexibility for fund management entities to operate in three categories – Authorised, Registered (Non-retail), and Registered (Retail). Around 24 funds are registered with the committed amount of around $ 5.3 billion[14].

The capital market and banking activities at IFSC are well-supported by ancillary service providers including legal, consulting and trusteeship services.

Sustainable financing needs an efficient and well-functioning capital market, banking, and fund ecosystems to mobilise funds towards green and sustainable assets/projects. IFSC, with further development of infrastructure, could become an ideal destination for availing financial services to facilitate global sustainable capital flows into India and developing nations.

7.3 Pillar 3: Competitiveness

Cost competitiveness:

IFSC is an offshore jurisdiction, established within the boundaries of India. This provides an opportunity for Indian entities, availing international financial services abroad, to gain access to these services within India. IFSC exchanges and clearing houses are considered efficient and cost-effective, among the major international jurisdictions, thereby providing cost advantage and easy access to global capital markets.

Tax Incentives:

A competitive tax regime is provided in IFSC for encouraging foreign investments in the jurisdiction. The entities operating from GIFT-IFSC would be eligible for various tax incentives and tax holidays. A few important ones are highlighted below:

i. 100% tax exemption for 10 years out of 15 years

ii. 0% capital gain tax on specialized securities transferred on recognized stock exchanges in IFSC

iii. 0% stamp duty on specialised securities transferred on recognized stock exchanges in IFSC

iv. 0% MAT (Concessional rate of MAT applicable for the IFSC units at 9%, however MAT provision not applicable for companies opting for concessional tax under Section 115BAA of the Income Tax Act, 1961)

v. 0% GST

vi. Withholding tax is reduced from 5% to 4% for debt issuances of Indian entities that are listed exclusively on IFSC exchanges

[14] End of March 2022

7.4 Pillar 4: Strategic Partnership

International cooperation and collaboration are vital in promoting common objectives such as climate change and international standards. IFSCA engages with global institutions, for the development of the financial market, to co-operate in the areas such as enforcement mechanism and regulatory framework.

As a regulatory body, IFSCA has signed MoU with following foreign financial sector regulators:

i. Commission de Surveillance du Secteur Financier, Luxembourg
ii. Financial Supervisory Authority, Sweden
iii. Dubai Financial Services Authority
iv. Qatar Financial Centre Authority
v. Financial Services Regulatory Authority of Abu Dhabi Global Market
vi. Monetary Authority of Singapore

IFSCA is a member of the IOSCO and signed the IOSCO MMOU concerning consultation and cooperation and the exchange of information. IFSCA is also a member of UNDP-FC4S network and GFIN.

The objective of signing MoUs and becoming a member of internationally reputed bodies is to establish a framework for mutual assistance, knowledge sharing and to facilitate the exchange of information for development, regulation and enforcing or ensuring compliance with their respective law or regulatory requirements.

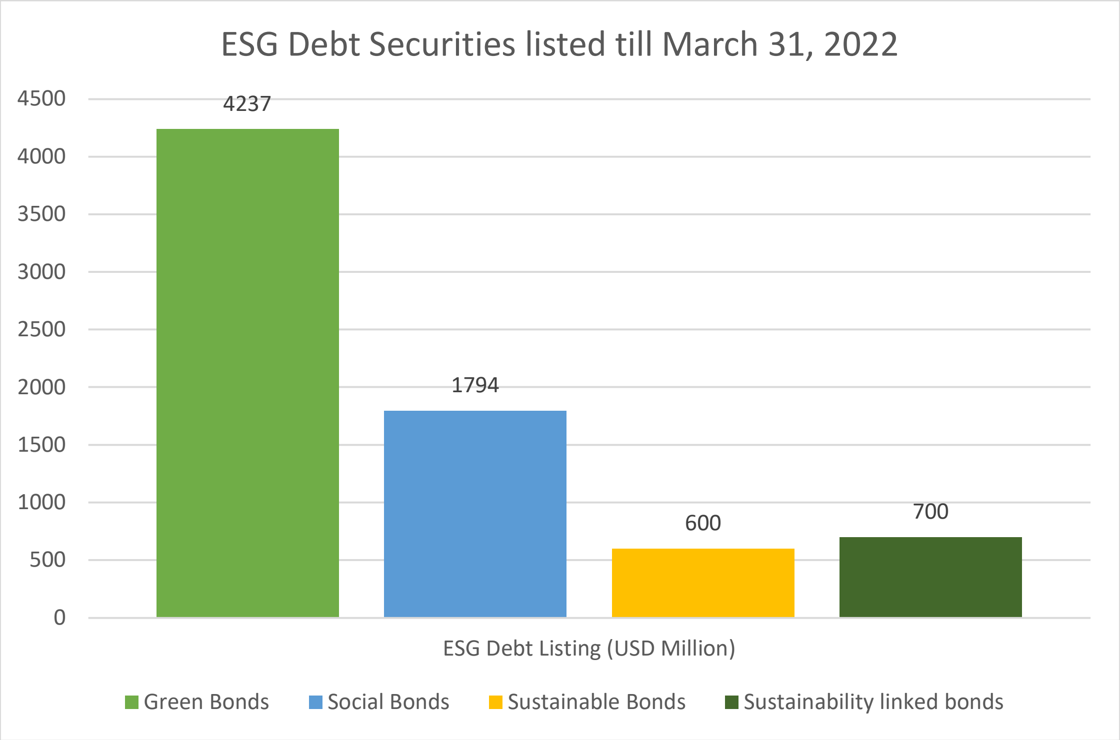
IFSCA also engages with institutions and organisations that are interested in participating and developing sustainable finance at IFSC. This includes development institutions, standard setting bodies, external reviewers, market intermediaries, and academic institutions which are focused on increasing the sustainable capital flows globally.

7.5 Snapshot of Sustainable Finance at IFSC

The regulatory environment, market infrastructure, cost competitiveness, and tax incentives have enabled the growth of sustainable finance products issued and listed at IFSC exchanges. As of March 2022, the total listings[15] of ESG labelled debt securities on

[15] Till March 2022

IFSC exchanges amounts to $7.3 billion. The framework for ESG-labelled debt securities, based on international standards, encouraged different labelled debt securities such as green, social, sustainable, and sustainability-linked bonds to be issued and listed at IFSC. There is a significant growth potential of existing and new products at IFSC that mobilises capital towards achieving green and social goals for entities and investors.



8. Recommendations

8.1 Products

1. Sustainable debt products

a) Sustainable/green loans/bonds:

According to Bloomberg NEF research, in 2021, more than $1.6 trillion in sustainable debt instruments were issued, bringing the total market close to $4 trillion[16]. Green bonds doubled in issuance between 2020 and 2021, with volumes reaching more than $620 billion[17]. At the same time, Social and Sustainability bonds reached $400 billion. This growth comes against the backdrop of rising net-zero targets from governments, the creation of corporate coalitions and greater transparency around ESG disclosures to hold companies accountable to sustainability goals.

An important distinction in sustainable debt instruments is activity-based debt vs. behaviour-based debt. The former includes green bonds, social bonds, sustainability bonds and green loans. They are used to raise money to finance new, or refinance existing, green projects or activities. The money raised must be used for these activities, which can be for environmental and social benefits such as greenhouse gas emission reductions or biodiversity conservation. Of the total $1.6 trillion sustainable debt issuance, activity-based debt accounted for $1.1 trillion.

On the other hand, behaviour-based debt includes instruments such as SLLs and SLBs which are used to raise money for general purposes. The activities performed with the raised money are not what earns behaviour-based debt types their 'sustainability' label, instead it is tied to a sustainability target for the issuer, requiring them to modify their behaviour. This could include a greenhouse gas emission reduction goal, a quota for diversity in the workforce, or many other types of behaviour. Of the total $1.6 trillion sustainable debt issuance, behaviour-based debt accounted for $537 billion.

A popular alternative for heavy-emitting industries has been sustainability-linked loans and bonds, which were the fastest growing themes in the ESG fixed income market in 2021. The first SLL globally was issued in 2017 and the first SLB in 2019. Together, these have reached more than $537 billion, four times the volume in 2020. Market associations such as ICMA, APLMA, LMA and LSTA issued guiding principles for SLBs/SLLs in 2019-20.

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[16] BNEF Report

India has seen significant debt capital flowing into green projects in recent years, with many large companies, especially in the renewable energy segment, successfully raising funds from capital markets in the form of green bonds, apart from bank borrowings. SLLs and SLBs, on the other hand, are in nascent stages in India, with only three issuances of SLBs to date, all in 2021 – Ultra tech Cement, Adani Electricity and JSW Steel. United Phosphorus UPL Ltd, in February 2021, became the first Indian company to raise an SLL. It may be noted that all the aforesaid four issuances above are offshore/dollar funds subscribed to by global investors.

There has been significant development in international bond listings at IFSC. Till March 2022, the total bond listings at IFSC exchanges are ~ $45 billion, with financial year 2021-22 accounting for around $18 billion. Exclusive listings, which signify increase in trust and confidence, have increased to $2.9 billion. The ESG-labelled debt securities, including green, social, sustainable, and sustainability-linked bonds, which are aligned with international standards, amount to approximately $7.3 billion. These ESG-labelled bonds are enabled through regulations on issuance and listing of securities by IFSCA. The average bond issuance for ESG-linked bonds is between $300 million to $700 million and bond holders are generally international banks and institutional investors. Additional tax incentives for ESG bonds could trigger huge capital flows to Indian Issuers.

Despite the growth in sustainable debt issuance, their volume remains a small portion of the total fixed income market. Investor appetite for such products is expected to ramp up over time as sustainable investing strategies become more prevalent across asset classes. The development of green/sustainable-labelled loans is still at a nascent stage at IFSC therefore is a huge potential opportunity for banking units.

Case study

In 2021, the ***APAC region*** accounted for $338 billion of sustainable debt issuance with China investing nearly a third of this ($111 billion). The driving factor for China's rising issuances (four-time increase from 2020) was their announcement of 2060 ***Net-Zero target***. With the announcement of India's Net-Zero target of 2070, IFSCA can study some of China's innovations in products.

- Issuance of bonds which are issued with the intent to reduce carbon emissions. The regulations for such bonds are more intensive than regular green bonds (which cover carbon emissions among other things). Nonetheless, Chinese companies were quick to adopt these bonds accounting for 40 per cent ($30 billion) of all green bonds. Similarly, IFSCA can consider experimenting with a new label in the local context to attract investor interest.

- The last year also saw a ***diversification of debt*** in mainland China expanding across categories such as green bonds, sustainability linked bonds, sustainability bonds and sustainability linked loans. By promoting investor awareness on the shades of green, IFSCA can attract a gamut of investors with different investment needs on their path to climate transition.

- The ***fiscal incentives*** are likely to increase the attractiveness of sustainable products. Hong Kong, an international financial centre similar to GIFT-IFSC, has been the recipient of government support which has helped Hong Kong to emerge as a potential hub for sustainable finance. The Chief Executive of the Hong Kong Special Administrative Region declared green finance a priority area, and the Financial Secretary announced a series of supportive measures, in the 2018-19 budget, including:
  - A Pilot Bond Grant Scheme to subsidise bond issuance in Hong Kong covering green bonds.
  - A Green Bond Grant Scheme to subsidise the use of the HKQAA Green Certification Scheme.
  - A HK$100 billion Government Green Bond Programme to create a demonstration effect to attract Mainland and international green issuers and investors to Hong Kong.
  - Enhancement of the Qualifying Debt Instrument scheme to provide a tax concession for bond investment in Hong Kong.
- IFSC offers a lower ***withholding tax*** of 4% on the interest earned on debt investments. This has attracted issuers to exclusively list their debt at IFSC Exchanges. Further reduction or abolition of withholding tax on ESG-labelled debt products will help in incentivising sustainable and green investments through IFSC.

Recommendations:

- ✓ *Government of India may consider reduction or abolition of withholding tax for sustainable debt products.*
- ✓ *IFSCA to take the lead in widening the scope of sustainable finance, through debt, from a few sectors and companies to encompass a greater variety. This will be important in achieving India's NDC targets and climate change goals.*
- ✓ *The IBUs and Stock Exchanges in IFSC should create a pipeline of transactions, for green projects, that require financing.*

b) Issuance of sovereign green bonds through IFSC

Budget 2022 announced the issuance of sovereign 'green bonds' for long-term capital infusion into green infrastructure in India. The ministry has indicated that the bonds would be rupee denominated and oriented towards domestic investors. Similar green bond issuances have helped financial centres across the world to be established as 'Sustainable Finance Hubs'. For example, Luxembourg Green Exchange has the largest market share of listed green bonds in the world, having a footprint across 135 countries, issuing green securities in 32 currencies.

The issuance of sovereign green bonds through IFSC would further validate the green bond market, leading to stronger bids, larger order books, increased pricing leverage and a higher quality investors base. In addition to this, MoF should consider enabling Sovereign Masala Bond issuances to be listed at IFSC to broaden the investor base for India's sustainability transition without taking on currency risk.

Currently, the taxation system in India, lack of capital account convertibility and international depository connectivity present challenges for Indian government securities to be listed on Global Bond Indices. The IFSC is well-suited to overcome these challenges for sovereign bonds. This would allow trading across international markets, further attracting the capital flows. Listing on global bond indices would boost the investor confidence in the products issued through IFSC, acting as a de-risking mechanism.

IFSCA in its capacity as a financial regulator must strive towards building a benchmark 'green yield' curve with which the green issuances may benefit over time. This could be initiated with the issuance of the proposed SGB (by the Indian Government) along the yield curve which will then help companies raising green finance to benchmark their issuances. However, these SGBs play an important role in creating an ecosystem which fosters a greater flow of capital into the green sector from the private sector. The global experience suggests that when such bonds are issued, they may not materially lower the cost of borrowing since the yield on a green bond is not significantly different from a regular bond.

Recommendation:

- ✓ *IFSCA to make a representation to the Ministry of Finance, Government of India, for the issuance, listing, and trading of Sovereign Green Bonds and Sovereign Masala Bonds in IFSC.* The sovereign bonds will create a benchmark yield curve for the future issuances.

2. Innovative sustainable finance products

Innovative sustainable finance products will not only increase the capital influx, but also be used as hedging mechanisms for investors. Given below are some examples:

a) **Weather derivatives**: These are used by the corporates to hedge against weather-related/climate risks. These are OTC traded and behave like insurance products.

b) **Green securitisation**: ABS, created by aggregating and securitising smaller green assets, are helping issuers access the bond markets for long-tenor and low-cost funding. It mobilises institutional funds for smaller projects. For example, the ADB facilitated financing through fixed-income investment tools for expressway companies to tap into capital markets in the Yunnan province of China.

c) **Labelled bonds**: These are the products, which are like the existing green bonds, but with a more focused use of proceeds, for example:

   i. ***Catastrophe bonds***: These are the debt instruments generally issued by reinsurers to cover the costs incurred due to a natural hazard. Catastrophe bonds and related ILS issuance climbed up to a huge $14 billion in 2021.

   ii. ***Green municipal bonds***: These are the debt instruments issued by the local governments to develop low-carbon green infrastructure. In 2021, Ghaziabad Municipal Corporation became the first municipal civic body to issue the green municipal bonds to the tune of ₹150 crore.

d) **Blended finance mechanism**: Blended finance mechanism crowd-in private capital by mitigating specific investment risks and addressing market failures. This financial structuring approach makes strategic use of development finance capital to act as a catalyst to mobilise private capital. There are several examples of blended finance vehicles across the world including the Climate Finance Facility by Development Bank of Southern Africa and Tropical Landscape Finance Facility in Indonesia.

e) **Convertible bonds**: Convertible bonds differ from standard bonds in that a company sells debt upfront, but investors can choose to convert their holdings into stock after a certain period of time if shares hit a specific price. While the vast majority of green financing is raised through conventional bonds, this nascent market is expected to grow over the long-term horizon given the flexibility they offer to investors looking for the relative safety of a bond while reserving the future right to assume more risk and convert into stocks under favourable market conditions. While optionally or partially convertible debt structures are enabled in IFSCA listing regulations, it is currently treated on par with equity (like domestic regulations). Drawing on international experience in the field, IFSCA can consider hosting advisors and consultants for a knowledge exchange session.

Case Study

Climate related innovative products are gaining popularity across the world. Few examples are highlighted below.

a) The Chicago Mercantile Exchange lists ***weather futures*** for several cities in the US to enable businesses to protect themselves against losses caused by unexpected shifts in weather conditions. There has been a gradual increase in volume in recent years due to heightened awareness of climate-related risk.

b) According to Climate Bonds Initiative, the ***green ABS*** issued in 2021 is around $24.2 billion. Plenti group, an Australian-based FinTech lending company, issued green-certified ABS, with underlying assets related to renewable energy, worth $65 million in 2022.

c) World Bank issued ***catastrophe bonds*** insuring Republic of Philippines against natural disaster-related losses up to $225 million.

d) Global Climate Fund (GCF), one of the largest multilateral funds established to assist developing countries in climate adaptation and mitigation, has promoted blended financing through use of four financial instruments: ***concessional loans, equity, grants, and guarantees***.

e) Companies in the US and EU issued ***green convertible bonds*** in the last two years for funding new green projects within the company. In June 2020, Neon (one of the world's leading renewable energy producers) launched the first-ever green convertible bond for a nominal amount of EUR 170 million maturing in 2025.

Recommendations:

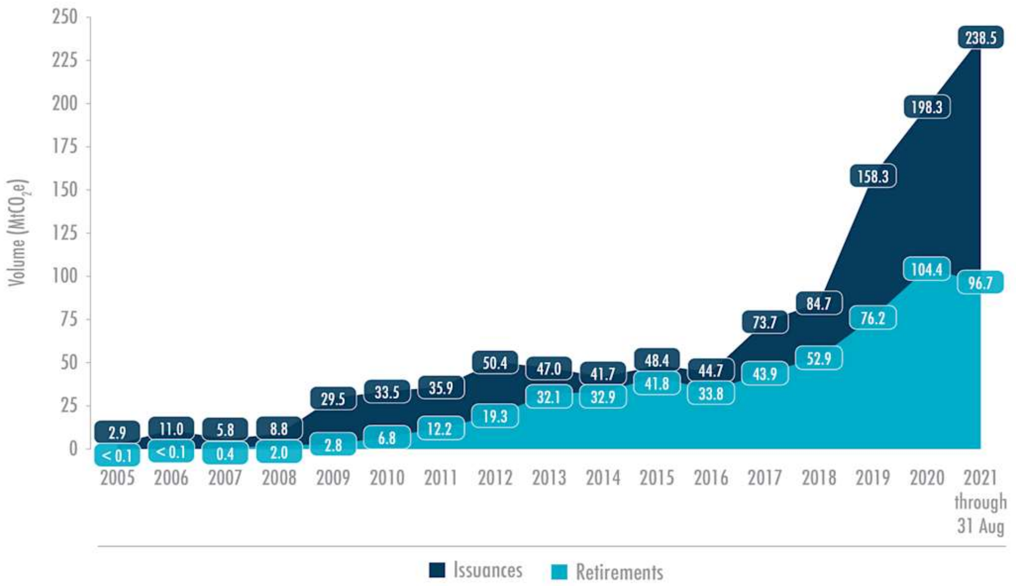
- ✓ *IFSCA to facilitate the structuring and issuance of innovative green products through regulatory framework and guidelines to attract private foreign capital.*
- ✓ *IFSCA to facilitate blended finance mechanism at IFSC by attracting concessional financing from MDBs, and DFIs, thereby reducing the financial risks of private and commercial investors.*
- ✓ *IFSCA to revisit certain aspects of IFSCA listing regulations for convertible debt to be in-line with global jurisdictions.*

3. Voluntary Carbon Market

These are new market mechanisms dealing in the sale and purchase of carbon credits in spot and derivative markets. These markets are created to help companies reduce GHG emissions at a lower price. Carbon credits are the underlying commodity which allow the buyer to retire a certain amount of GHG emissions. Countries such as New Zealand, South Korea, Switzerland, and the US have developed carbon trading schemes. The combined value of the world's carbon markets reached $272 billion in 2020. This is the aggregated size of carbon markets created by jurisdiction specific cap-and-trade schemes.

While these markets are restricted to their respective geographies, this excludes the voluntary carbon markets, which create a global market for corporates and individuals to access the carbon credits. These are a fast growing (expected to grow from $1 billion in 2021 to $50 billion in 2030) source of low-carbon capital.

Market Size by Voluntary Carbon Offset Issuances and Retirements, 2004 to 31 August 2021



Source: Forest Trends' Ecosystem Marketplace, 2021.

The voluntary carbon market enables individuals, governments, NGOs, and businesses to voluntarily purchase carbon credits to offset their investments. Companies are increasingly committing to net-zero targets of their own. Carbon offsets could help them meet a portion of their targeted emission reductions (in line with guidance on credible carbon offset claims and use being developed by initiatives such as the VCMI and the ICVCM). Thus, this constitutes another driver of demand for voluntary credits. The trading of carbon credits happens Over the Counter (OTC) or through exchanges like CTX Global, AirCarbon Exchange etc.

Carbon Market in other jurisdictions:

SINGAPORE

- **Climate Impact X (CIX)** will be a global carbon exchange to be launched for trading in standardized contracts backed by **high-quality carbon** credits.
- A platform known as **Project Marketplace** for curated natural climate solution (NCS) projects will also be launched which will deliver carbon credits through the protection and restoration of **forests, wetlands and mangroves.**

HONG KONG

- The **Hong Kong Monetary Authority** has set up a **Carbon Market Work Stream (CMWS)** to assess the feasibility of developing Hong Kong as a **regional carbon trading centre** and to look for opportunities arising from the cap-and-trade carbon market and the **voluntary carbon market.**

AUSTRALIA

- The Commonwealth Bank of Australia (CBA) announced that it will be **investing $15 million** in Xpansiv Ltd., a provider of global marketplaces for ESG commodities, to build a trading infrastructure "and grow **Australia's voluntary carbon market.**"

UNITED KINGDOM

- Britain is taking steps to establish **London as a global hub** for the trade of voluntary carbon offsets.
- A new group will be established, led by former London Stock Exchange Group chief executive with the aim of positioning the UK and the City of **London as the leader of the global voluntary carbon markets**.

Recommendation:

✓ *IFSCA can bolster IFSC's sustainability credentials by championing the voluntary carbon market and create a voluntary carbon market in IFSC.*

4. Sustainable finance for Micro Small & Medium Enterprises (MSMEs)

MSMEs are a vital component of the Indian economy, contributing ~30% of the GDP. As of FY 2018-19, the sector accounted for ~95% of the industrial units and ~50% of the total exports. As it is the second-largest employment source after the agriculture sector, it is important that MSMEs get included in the sustainable finance plans.

A study conducted by CSTEP in 2015-16 suggests that the informal sector (largely MSMEs) has a significant GHG footprint, contributing roughly 110 $MtCO_2e$ per annum. On the other hand, MSMEs are more severely hit by climate risks. The physical and transitional risks slow down and/ or halt their operations, leaving them scrambling for immediate finance.

Case study

Huzhou is a green finance pilot city in China that has pioneered new approaches for matching local SMEs with green finance opportunities. The municipal government has developed a one-stop service platform for green finance. The platform provides three primary financial services for SMEs:

- ***Facilitating green lending for Banks*** – Through a combination of 36 local banks and 300+ financial products, the platform efficiently matches SMEs with banks and products to suit their needs. The platform also compiles information from 31 government departments including commercial operations, tax, and environmental performance lowering the administrative red tape.

- ***Directly connecting businesses with investors*** – Using the platform, the investors can review detailed information and compare all the available enterprises and projects. Direct intermediation lowers administrative costs and increases transparency.

- ***Green credit rating system*** – The platform identifies qualified green projects and businesses, with the government using this data to issue subsidies for the "green" projects

Apart from the local government, the Bank of Huzhou has also come up with a green credit management system to identify green projects and manage risks, creating a well-rounded ecosystem. Its main features are:

- AI and ML techniques are applied to automatically filter financial transactions and projects that do not meet national or local standards.

- Estimates benefits of the projects that pass the standards and assign them "smart green labels".

- Big data is used to manage environmental and social risks. The system extracts environmental risk information and sends warnings about potential risk factors and continuously monitors environmental performance.

In terms of the impact achieved, the platform has done remarkably well. Since 2018, the platform has attracted 16000+ SMEs, 30+ FIs, and 80+ investors. It has matched 13000+ SMEs, leading to $23 billion+ green credit from banks, and raised $1 billion+ raised for 73 projects through direct connection with investors.

Recommendations:

- ✓ *IFSCA could facilitate development of a dedicated lending platform for green/sustainable projects in the MSME sector. The platform will provide opportunity for MSMEs to avail green/sustainable financing through IFSC.*

5. De-risking mechanisms

Some green projects require a long gestation period to prove their feasibility. As a result, banks are less likely to participate in these ventures. IFSCA can engage with MDBs to create a suite of risk sharing facilities and partial credit guarantees. This is in-line with the World Bank and NITI Aayog's $300 million first loss risk sharing instrument which lowers interest rate on EV loans to 10-12 per cent (from 20-25 per cent). This presents an opportunity for India to unlock capital for green finance. However, India's ambitious green transition plans cannot be achieved by the public sector alone. MDBs can play a crucial role in supplementing and strengthening the private sector in achieving its investment potential by providing services to scale up private investment. The average annual green financing by MDBs between 2016 and 2020 was close to $3 billion. The use of MDB's instruments have, however, been limited in India.

De-risking mechanisms such as credit enhancements and guarantees, mobilise private financing while reducing the risk bias and simultaneously ensure traceability. These mechanisms have known to build investor confidence, thereby enhancing capital flows into sustainable investments.

Specialised international organisations such as GuarantCo, The Currency Exchange Fund (TCX) and guarantee facilities by Development Finance Institutions provide guarantees for various financial products. Further, there are many domestic guarantee schemes (for example, SIDBI's Partial Risk Sharing Facility for Energy Efficiency or the BEE's Partial Risk Guarantee Fund for Energy Efficiency) which help de-risk the investment towards transition.

In order to become a global/regional hub for sustainable finance, IFSCA could consider developing an appropriate regulation to permit capital to be directed through GIFT-IFSC towards emerging economies at large. Developing regulations (in coordination with counterparts in other developing countries) to permit blended finance structures/de-risking mechanisms that pool investment opportunities across developing countries for collective de-risking through a common fund could be a concrete step in this direction. Besides driving scale, diversification benefits from risk pooling could also help lower the aggregate costs of de-risking. Among international investors, Asian investors have led the way for investing in India. For example, 48 per cent of the proceeds of international green bonds issued by Indian RE developers may be attributed to Asian investors[18].

[18] https://www.ceew.in/cef/solutions-factory/publications/CEEW-CEF-financing-india-energy-transition-through-international-bond-markets.pdf

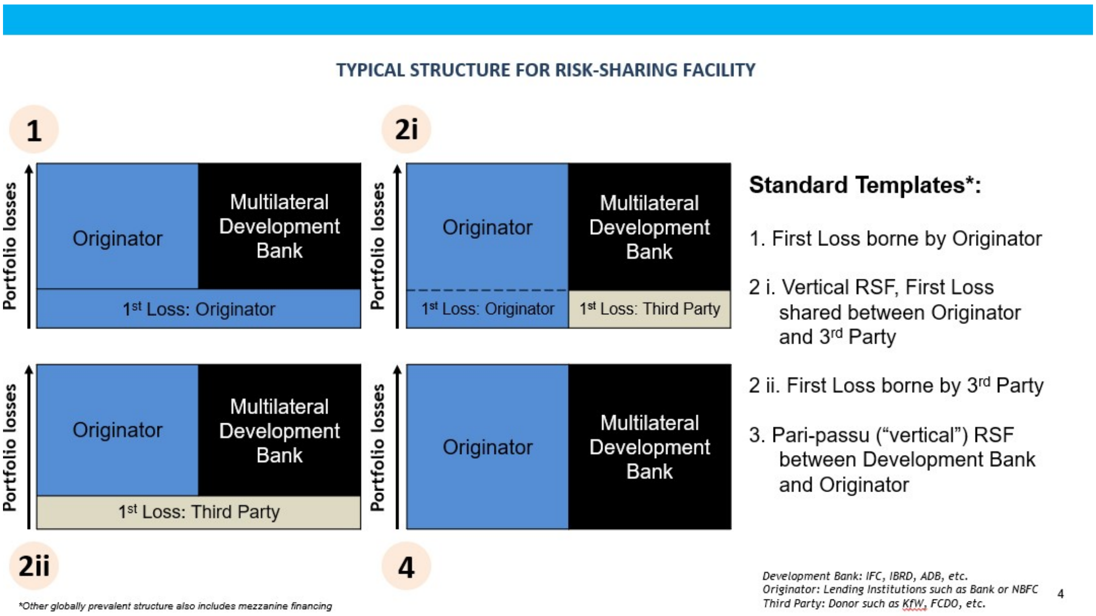
Case Study

There are several facilities/mechanisms that have come up as credit enhancement products. Two common mechanisms are listed below:

i. **Risk Sharing Facilities (RSFs)**: RSF is a bilateral loss sharing/risk mitigation mechanism in which the supplier (e.g., an MDB) agrees to share a percentage of losses incurred by the originator of assets (financial institution or intermediary) in respect of a specific portfolio of assets. The MDB reimburses the originator for a portion of the losses sustained on a portfolio of eligible assets using this instrument. In this process, MDBs gain indirect exposure to a portfolio of underlying assets in a specific sector (such as green loans) created by an originator.

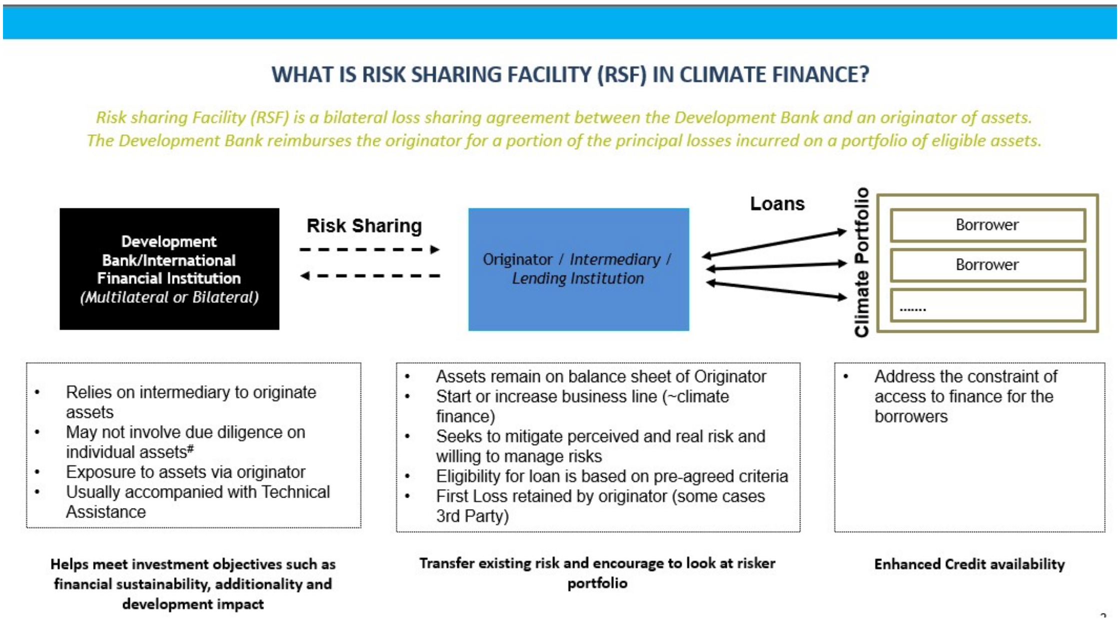
RSFs are effective in promoting portfolio expansion in a sector like green finance that is either new to a financial institution or associated with a higher level of credit risk. There is currently no regulatory structure in place in India that allows MDBs to provide the RSF product in the country.

The RSF product cannot be implemented in the absence of such a framework or regulatory clarity. In India, the Foreign Exchange Management Act (FEMA) regulations restrict capital account transactions unless they are specifically permitted. This necessitates the creation of a unique enabling regulatory environment within IFSCA. MDBs that are not residents are currently unable to offer RSFs since they would require capital account transactions.



ii. **Partial credit guarantee (PCG)**: PCG is a tripartite credit enhancement mechanism among the borrower, a lender (bank or financial institution), and the PCG provider, in which the PCG provider (for example, an MDB) promises the lender to pay a certain specified percentage of amounts due and payable (principal, interest, etc.), if the borrower defaults or fails to meet its payment obligations.

PCGs issued by MDBs can be useful in reducing borrowing costs and can be offered for or other debt instruments issued by private and public-sector projects, public-private partnerships, corporations, and (sub) sovereign entities. The PCG is typically for a predetermined amount known as the guarantee amount. The PCG mechanism allows MDBs to reach a wider set of borrowers through domestic financial institutions, while also allowing them to access green finance at better terms.



For example, in 2021 the World Bank and NITI Aayog launched a $300 million risk sharing facility for financing of EVs. The instrument would act as a hedging mechanism for banks in case of defaults of loans on purchase of EVs and is expected to bring down the cost of financing for EVs.

Recommendations:

- ✓ *IFSCA to approach Government of India to facilitate creation of de-risking facility in IFSC to promote sustainable finance into India.*
- ✓ *IFSCA to create an enabling regulatory framework for MDBs to offer products like RSFs and PCGs.*
- ✓ *IFSCA could consider coordinating with counterparts from Asian countries to implement measures for blended finance structures/de-risking mechanisms.*

6. Aggregation facilities/vehicles

Aggregation vehicles are specialised exchange traded products, which invest in a particular sector. For example, ***REITs*** are specialised companies which pool the assets of various investors and invest in the real estate sector. These are traded on exchanges which makes it possible for the investors to earn dividends without buying the real estate.

Leveraging pooled investment vehicles such as ***REITs*** and ***InvITs*** will allow companies to monetize operational cash generating assets. ***YieldCos*** are another example, which aggregate renewable energy assets, and help in attracting investors seeking stable, predictable returns.

Listing of Indian and international sustainable finance products and vehicles will help in attracting more foreign capital. While there has been positive feedback for the ease of listing of securities on the Stock Exchanges based in IFSC, ways to further simplify and strengthen the process of listing of aggregation vehicles and innovative products in other exchanges within IFSC need to be explored.

Case Study

Masdar Green REIT, established in Abu Dhabi Global Market (ADGM), is the first in UAE to invest solely in sustainable real estate assets. The REITs portfolio comprises of commercial properties within Masdar City, with an initial valuation of approximately $258 million.

India issued its first ***renewable energy infrastructure investment trust***, Virescent Renewable Energy Trust VRET in 2021 and it has raised ₹1650 crore until February 2022 through non-convertible debentures.

Recommendation:

- ✓ *IFSCA to facilitate formation and development of green aggregation vehicles (REITs, InvITs, ETF) and facilitate listing on stock exchanges within IFSC to encourage capital flows.*

7. Transition Bonds

Hard-to-abate sectors like steel, cement, aviation, oil and gas, shipping, and chemicals need to factor an orderly transition plan into their business models, which also requires planning for transition finance. One such example of transition finance is the development and enlistment of coal aggregation vehicles or setting up of a Buyback Fund. This would help to buy back the worst performing coal fired power stations and accelerate their closure, for a smooth transition.

Products such as transition bonds can also further speed up the process of decarbonisation. This is a relatively new label within the sustainable finance market. These are designed to enable issuers from less sustainable sectors to finance a gradual shift to a more sustainable business model. These types of activities are beneficial but considered less ambitious than 'green' ones as they are designed to enable issuers from less sustainable sectors to finance a gradual shift to a more sustainable business model. This type of financing is leveraged by companies from hard-to-abate sectors that are currently transitioning to a low-carbon economy. To date, the transition bond market is still small, totalling $10.4 billion in issuance since its inception. The limited success in the global context is due to lack of clarity on meaningful standardization and fears of greenwashing. Opponents question the authenticity of such bonds as they see them as softening the market for sustainable bonds. However, India's requirements are unique as it is confronted with the twin challenges of development and decarbonization.

Case Study

Japan Airlines issued the world's ***first transition bond*** in the aviation industry. The airline has set a target of net-zero emissions by 2050 by upgrading its aircraft to fuel efficient models and increasing the amount of sustainable aviation fuel for its fleet. Japan Airlines will use the net proceeds of the bond to advance the transition to carbon-free operations in its air transport business and to redouble its efforts to ultimately achieve decarbonization.

Recommendation:

- ✓ *IFSCA to issue specific guidelines/framework for transition bonds enabling carbon intensive industries/sectors to raise global capital for gradual transition towards net-zero.*

8. Impact funds

Impact funds help generate financial returns while simultaneously creating a positive social or environmental impact. Setting up an impact fund within IFSC will bring together public, private, and philanthropic capital to enhance the commercial viability of new technologies and accelerate the transition.

While it is incredibly challenging for new technology start-ups to commercialize their products, it is uniquely challenging for the ones in the clean energy space. Their journey is exacerbated by the need for large R&D and demonstration expenses making it hugely complicated, risky, and extraordinarily expensive with few opportunities for financing. These new technologies also come with a high green premium and long-term investment cycles. However, given the urgency of the climate crisis, funding the growth of clean energy companies is extremely crucial. Impact capital can uniquely address some of these funding constraints for commercial capital.

Case study

One such model for an impact fund could be the ***Breakthrough Energy Catalyst***, which is a blended financing vehicle that allows governments, companies, innovators, and philanthropists to collectively fund the commercialization of clean technology. The "sub-market" capital—***philanthropic grants and equity*** – serves as the last-mile financing with a low expectation of return. This in turn encourages banks to lend more money at cheaper rates.

Recommendation:

- ✓ *IFSCA could encourage setting up of impact funds within IFSC and can create guidelines for investors looking to see a social return on their capital.*

9. Green Equity

Globally, companies in the 'sustainable' sectors (including renewable energy, electric vehicles etc.) raised over $47 billion. While US firms led the lion's share of equity at $26 billion, the APAC region raised $12 billion. Of this, only $443 million flowed into India in the solar, wind and electric vehicle sectors. Green equity is a necessary tool for funding companies in the early stages of developing new technologies where it is crucial for emerging fields such as food tech, offshore wind, and green hydrogen as they are still considered risky. Given the favourable regulations in IFSC, foreign equity capital through increased investor engagement can be channelized towards green companies.

Case study

The Indian EV startups raised $444 million in 2021 across more than 25 deals. Large venture capital and private equity players are placing huge amounts of funds into this sector. Ola Electric, Blusmart and Simple Energy attracted the highest funding. Traditional automotive companies, such as Hero MotorCorp and TVS Motor are also backing new startups in this space in anticipation of future electrification demand in the market.

Recommendation:

- ✓ *IFSCA to explore global taxonomies or processes to label equity as green.*

8.2 Regulations and policies

10. Adoption of an internationally aligned taxonomy

IFSC is an outward looking jurisdiction which seeks to attract foreign investors, which gives rise to the need for adoption of an internationally aligned taxonomy. The taxonomy adopted in IFSC needs to be aligned with the globally accepted taxonomy. This would not only provide clarity to the international investors but also offer confidence, thereby aiding capital inflows.

Case study

The ***EU Taxonomy***, published by the EU, establishes a list of environmentally sustainable economic activities. The taxonomy regulations have six environmental objectives, namely, climate change mitigation, climate change adaptation, the sustainable use and protection of water and marine resources, the transition to a circular economy, pollution prevention and control, and the protection and restoration of biodiversity and ecosystems.

Similarly, the ***ASEAN Taxonomy*** tries to establish a common language for sustainable finance among ASEAN countries. It has a principles-based foundation framework including four environmental objectives and two essential criteria for assessments of economic activities that promote transition to low carbon practices. These are helpful in creating security for investors, protecting private investors from greenwashing, and helping companies to become more climate friendly. Although India is also in the process of preparing its own sustainable finance taxonomy, adopting globally recognized taxonomy would be more relevant for the IFSC, given the nature of transactions therein.

Recommendation:

- ✓ *IFSCA to adopt an internationally aligned taxonomy and take active participation in the development of common ground between Indian and International taxonomy.*

11. Non-financial disclosures and reporting requirements

According to EY Global Institutional survey (2020), 91% of investors say that non-financial performance has played a pivotal role in their investment decision-making over the past 12 months either “frequently” or “occasionally.” In this scenario, non-financial disclosures become imperative for corporates. These disclosures build credibility in the international investor community boosting the investor sentiment. A CRISIL report

(2021), based on a survey, shows that only one-fifth of Indian firms published sustainability reports in 2021. The situation is expected to change drastically with the introduction of SEBI's BRSR for top 1000 listed companies.

There are several international/ national frameworks that currently aim to help organisations assess and disclose sustainability-related information. These frameworks support disclosures by specifying structures, definitions, metrics, and methodologies. While frameworks such as the GRI and SASB have a broader ESG focus for disclosures, TCFD is principally focused on climate. Encouraging the FIs set up in IFSC to report on non-financial disclosures would lead to the integration of sustainability within their operations.

Case study

In 2017, the ***TCFD***, established by the FSB, published recommendations on climate-related financial disclosures. Over time, the TCFD framework has increasingly been recognized as a suitable basis for such disclosures. While it was originally introduced for voluntary adoption by non-financial and financial firms, the TCFD's recommendations have now become embedded in several legal and regulatory frameworks of G20 members and other jurisdictions. FC4S is currently developing a TCFD best practices and governance guide for its members, including the IFSCA, inspired by the successful Japanese, Irish, and Mexican TCFD national consortia model.

In India as well, the SEBI along with the MCA has developed the ***BRSR*** to be included by the top 1000 companies in their annual reports disclosed to stock exchanges from FY 2022-23. This paves the way for ESG to be formally adopted as a metric for assessing company performance[19].

Recommendations:

- ✓ *IFSCA to mandate reporting on non-financial parameters, with a special focus on climate risk by IBUs and FIs in a phased manner. These disclosures may be voluntary initially paving the way for mandatory disclosures. TCFD could be used as a starting point for climate related disclosures. These disclosures can be subjected to external review and/or audit.*
- ✓ *IFSCA to strive towards standardization of climate disclosures by entities.*

[19] New Sebi rules set the stage for formal adoption of ESG from April 1

12. Regulatory Sandbox – Green FinTech

In 2020, to promote the FinTech sector, IFSCA introduced a regulatory sandbox[20] for entities operating in specified financial services, including capital markets, banking, pensions, and insurance. Moreover, the green FinTech regulatory sandbox would enable the start-ups who are offering green financing solution to test their solutions in a limited and live environment. A regulatory sandbox serves as a framework that allows live, time-bound testing of innovations under IFSCA's oversight. This type of controlled environment will boost the innovation of clean technologies within the region. This will also differentiate GIFT-IFSC and give the sector a boost. This model has also worked well in other parts of the world with 46 such initiatives in various stages of implementation.

Case study

The ***DIFC*** located in Dubai has announced an investment corpus of $100 million for ***early-stage FinTech companies*** seeking access to the Middle East, Africa, and South Asia markets. The ***FCA*** launched a second ***Green FinTech Challenge***, in 2021, to support the development and live market testing of new products and services that will aid the transition to a net-zero economy.

Recommendation:

- ✓ *IFSCA to promote regulatory sandbox for Green-FinTech in order to boost investments in green technology through IFSC.*

[20] Regulatory Sandboxes: Decoding India's attempt to Regulate Fintech Disruption, ORF, 2020

8.3 Capacity building

13. Skill development

There are growing requirements from regulators, investors, and other stakeholders to assess, disclose, and manage climate risks. As climate-related risks increase, investors demand granular climate-related disclosures from entities. Regulators across the world have made references to adopting ESG frameworks and TCFD standards in their governance practices. It is necessary to address shortage of skilled professionals in order to expedite and facilitate the reporting of non-financial disclosures.

As BRSR becomes mandatory for listed Indian companies and disclosures under the TCFD framework increase globally, data availability will be enhanced, allowing financial institutions to improve their credit-based determination of ESG scores. Rating agencies and assurance companies will need professionals and standardized project appraisal tools for the financiers to ensure widespread dissemination of disclosures.

There is a need for skill enhancement in banks and other financial institutions within IFSC. Industry-ready and industry-acceptable certification programs can be launched to increase the human resources capable of evaluating sustainable finance reporting and ratings over the next few years.

Case study

Ireland's government backed ***Irish Sustainable Finance Skillnet*** (SFS)[21], has upskilled over 2,000 professionals in two years, while also developing certified programmes.

Recommendation:

- ✓ *IFSCA to engage with ESG and climate risk experts like CEEW, Climate Bonds Initiative, FC4S, auctusESG, among others for creating skill enhancement programs to bridge the knowledge gap and enhance professional capacity within the IFSC.*

14. Multi-level approach for the capacity building activities

a) At Systemic level

Regulators, policymakers, and management of stock exchanges should undergo capacity building on Sustainable Finance. To achieve this, regulators should organise training for

[21] Ireland Sustainable Finance Roadmap 2021

their staff. Faculty for such training could be leading academics and professionals from international organisations like the World Bank, United Nations, OECD or regulators from EU, Luxembourg or other nations who have experience in policy making on Sustainable Finance. In addition, subject matter experts from private consulting firms and IIMs could be involved to bring in practical inputs for designing material and curriculum for various levels, compliance monitoring and for imparting training at all levels.

b) At Institutional level

Banks/Financial Institutions: IFSCA should facilitate education programmes to train the financial institutions towards integration of ESG and sustainable financing into their operations. Some of the methods to do the same are as under:

i. ***Mandatory Certifications*** – The personnel/managers involved in the design, development and selling function of sustainable finance/ green products must necessarily undergo a certification course and gain accreditation from recognized organisations. These certification courses could be designed by bodies like the ICAI, CFA Institute, GARP, NSE or BSE Institute. Alternatively, the RBI Academy/NISM could be approached to facilitate systemic level training for banks and financial institutions. The Banks/ other financial institutions should sponsor these courses for employees.

ii. ***Industry-ready and industry-acceptable certification programs***: Such programs can be launched to increase the human resources capable of evaluating sustainable finance reporting and ratings over the next few years. This will also be useful to MSMEs who will also progressively need to adapt to the new regulations and disclosures.

iii. ***Continuing professional education requirements*** for enhancing knowledge and skills– Financial institutions should incentivize their staff to undertake training on Sustainable Finance/ responsible Investment through attending seminars/conferences, certifications, e-learning courses etc. There is need for induction/training intervention for board/governing body members of banks and financial institutions on the concepts of ESG and Sustainable Finance so that they can understand and evaluate the key risks and opportunities and provide adequate direction to their respective organisations.

Corporates (including SMEs): IFSCA could collaborate with industry bodies like SME India, FICCI, CII, SME Network and NASSCOM to introduce capacity building programmes for the Board of Directors and/ or KMPs of corporates to sensitise them on the key tenets of ESG, the importance of ESG, best-in-class ESG practices and opportunities to avail low-cost sustainable finance. These training programmes could be facilitated in collaboration with globally recognized organizations, academic institutions, and consulting firms.

IFSCA could also collaborate with leading Indian Stock Exchanges like NSE and BSE to facilitate training programmes for effective implementation of sustainability-reporting by Indian entities.

c) At Individual level

i. ***Universities/Business Schools***: The GoI could engage with academic Institutions/Universities to introduce specialized courses or degree programmes in the field of Sustainable Finance. A component of sustainable finance should also be introduced as a part of the current management, financial and economics graduate course curriculum. Students could be provided with an option to gain dual specialization (with a Sustainable Finance component). ICAI could also introduce a section on sustainable finance in the Chartered Accountancy (CA) curriculum for Indian CA students.

ii. ***Certification courses by Exchange Houses***: Exchange Houses like BSE and NSE can introduce e-learning or self-paced learning diploma courses on sustainable finance. Institutes like IIM-A, CFA Institute and private consulting firms can be roped in for the development of course material and facilitation of workshops. These courses can be broken down into different levels of training/ certifications. For example, Level 1: Beginners can include an introductory course on ESG concepts and Sustainability frameworks while higher levels may be more evolved and niche for investment professionals.

Recommendations:

- ✓ *IFSCA to create an institutional-level framework for capacity building specific to the type of financial institution. This framework can incorporate mandatory certifications/trainings on key areas related to sustainability.*
- ✓ *IFSCA to engage with relevant international organisations to train regulators, policymakers, and key managerial personnel of systemically important financial institutions.*

8.4 Outreach

15. Focused outreach initiatives

Focused outreach initiatives are required to promote GIFT-IFSC as a sustainable finance hub for India and the South Asian region, to begin with, and possibly expand its scope to emerging markets and developing countries in other regions in future.

Recommendations:

- ✓ *IFSCA to actively participate in global climate events, conferences, seminars, round- tables etc., to position GIFT-IFSC as an international hub of sustainable finance and climate investment.*
- ✓ *IFSCA to engage with GoI for India's presidency of G20 in the areas of sustainable finance and climate actions.*
- ✓ *IFSCA to engage with established alliances like International Solar Alliance and Coalition for Disaster Resilient Infrastructure in the region to explore synergies to leverage their vast network to bring in more capital.*

16. Learning from Global Financial Centres

Globally, several platforms have come up that facilitate the listing and trading of a variety of sustainability products including green bonds, voluntary carbon credits, sustainable bonds, green REITs, and green equity, and channel the flow of sustainable finance to other countries. IFSCA to explore best practices followed across jurisdictions and adapt suitably to IFSC through active involvement of MoUs and exchanges.

Case study

LuxSE has a dedicated Green Exchange, the LGX[22], which serves as a dedicated platform for sustainable securities and issuers contributing to a low carbon economy. The exchange, which has been active since 2016, has become a place for global issuers, asset managers and investors interested in financing green and sustainable bonds. To date,

[22] LGX

they have approximately 422 listed securities worth EUR 188 billion. Apart from providing a range of green and sustainable products from climate-aligned issuers, LGX ensures that bonds are verified and information on their disclosures can be accessed through a dedicated platform. Its ***'DataHub'*** brings granular, real-time sustainable finance investment data to investors for the selection and monitoring of projects. Learnings from LGX's successful model can be incorporated into IFSC exchanges.

Recommendation:

- ✓ *IFSCA to engage with entities in global financial centres to identify and implement the global best practices, products, and platforms.*

17. Climate Alliance

There has been growing interest among regulators, corporates, practitioners, policymakers, and civil society in the sustainable finance and climate investment. Quality research could play an important role for the necessary developments in the sustainable finance and investment. IFSCA should create an alliance which aims to organise ***conferences*** on sustainable and climate finance internationally, develop the collaboration with various stakeholders in the sustainable finance ecosystem and assist IFSCA in developing GIFT-IFSC as a truly global sustainable finance hub.

Recommendation:

- ✓ *IFSCA to lead initiatives and actions towards creation of a global climate alliance by partnering with policy thinktanks, standard setting bodies, industry associations, academic institutions, among others.*

8.5 Miscellaneous

18. Department of Sustainable Finance & Climate Actions

In order to implement high level action plan developed through this report, in letter as well as in spirit, a dedicated and skilled sustainable finance department would be required. This dedicated team will not only draft policy and regulations but also keep abreast of the developments that are taking place across the globe and carve out the detailed marketing and outreaching activities that will promote the IFSC as a hub of sustainable finance.

Case Study

A '***Sustainable Finance Group***' (SFG) was set up in the Reserve Bank of India in May 2021 which coordinates with other national and international agencies on issues relating to climate change. The group would be instrumental in suggesting strategies and evolving a regulatory framework, including appropriate environmental, social and governance (ESG) disclosures, which could be prescribed for banks and other regulated entities (REs) to propagate sustainable practices and mitigate climate related risks in the Indian context. Going forward, it will analyse India-specific themes on the systemic impact of climate change and stress testing.

Recommendation:

- ✓ *IFSCA to establish dedicated fulltime and fully resourced department for "Sustainable Finance & Climate Actions" based out of the headquarters at GIFT City.*

19. Currency hedging

As IFSC acts as a gateway for encouraging foreign capital to flow into India, there is an absolute need to protect the issuers from growing currency risks. The current geo-political situation has further aggravated the need to mitigate currency risks in all scenarios. This necessitates the development of the currency market to reduce the barriers, especially for small issuers. Since the currency swap market is under-developed at IFSC, the cost of hedging is currently high. There is potential for large amounts of foreign currency funds to be pooled in GIFT-IFSC which needs to be converted to local currency for deployment. The banking and capital market ecosystem at IFSC needs to provide easy access to competitive currency hedging products and solutions. IFSCA can create a working group to develop the currency hedging products/solutions at IFSC.

Recommendations:

- ✓ *IFSC to be developed as a centre for currency hedging solutions to reduce the cost of hedging.*
- ✓ *IFSCA can create a working group to develop currency hedging products/solutions at IFSC.*

20. Standardisation of the ESG Ratings

A standardised, comparable, and transparent ESG rating system would help in robust benchmarking as well as a key screening criterion. This could in a way facilitate operationalizing the taxonomy. For instance, exchanges at IFSC could create their own ESG rating systems in collaboration with rating agencies in India or abroad. Investors could procure these databases to make investment decisions based on their own investment screens.

Recommendation:

- ✓ *IFSCA to encourage stock exchanges based in IFSC to develop a standardised ESG scoring and rating system with company disclosures as the underlying data to score various issuances.*

9. Roadmap for Implementation of Recommendations

Short Term
1. IFSCA to engage with entities in global financial centres to identify and implement the global best practices, products, and platforms. 2. IFSCA to actively participate in global climate events, conferences, seminars, round- tables etc., to position GIFT-IFSC as an international hub of sustainable finance and climate investment. 3. IFSCA can bolster IFSC's sustainability credentials by championing the voluntary carbon market and create a voluntary carbon market in IFSC. 4. IFSCA to engage with GoI for India's presidency of G20 in the areas of sustainable finance and climate actions. 5. Government of India may consider reduction or abolition of withholding tax for sustainable debt products. 6. IFSCA to promote regulatory sandbox for Green-FinTech in order to boost investments in green technology through IFSC. 7. IFSCA to issue specific guidelines/framework for transition bonds enabling carbon intensive industries/sectors to raise global capital for gradual transition towards net-zero. 8. IFSCA to lead initiatives and actions towards creation of a global climate alliance by partnering with policy thinktanks, standard setting bodies, industry associations, academic institutions, among others. 9. IFSCA to engage with established alliances like International Solar Alliance and Coalition for Disaster Resilient Infrastructure in the region to explore synergies to leverage their vast network to bring in more capital. 10. IFSCA to engage with ESG and climate risk experts like CEEW, Climate Bonds Initiative, FC4S, auctusESG, among others for creating skill enhancement programs to bridge the knowledge gap and enhance professional capacity within the IFSC. 11. IFSCA to engage with relevant international organisations to train regulators, policymakers, and key managerial personnel of systemically important financial institutions. 12. IFSCA to establish dedicated fulltime and fully resourced department for "Sustainable Finance & Climate Actions" based out of the headquarters at GIFT City.

Medium Term

1. The IBUs and Stock Exchanges in IFSC should create a pipeline of transactions, for green projects, that require financing.

2. IFSCA to facilitate the structuring and issuance of innovative green products through regulatory framework and guidelines to attract private foreign capital.

3. IFSCA to facilitate blended finance mechanism at IFSC by attracting concessional financing from MDBs, and DFIs, thereby reducing the financial risks of private and commercial investors.

4. IFSCA to create an enabling regulatory framework for MDBs to offer products like RSFs and PCGs.

5. IFSCA to approach Government of India to facilitate creation of de-risking facility in IFSC to promote sustainable finance into India.

6. IFSCA to make a representation to the Ministry of Finance, Government of India, for the issuance, listing, and trading of Sovereign Green Bonds and Sovereign Masala Bonds in IFSC. The sovereign bonds will create a benchmark yield curve for the future issuances.

7. IFSCA could encourage setting up of impact funds within IFSC and can create guidelines for investors looking to see a social return on their capital.

8. IFSCA to create an institutional-level framework for capacity building specific to the type of financial institution. This framework can incorporate mandatory certifications/trainings on key areas related to sustainability.

9. IFSCA to mandate reporting on non-financial parameters, with a special focus on climate risk by IBUs and FIs in a phased manner. These disclosures may be voluntary initially paying the way for mandatory disclosures. TCFD could be used as a starting point for climate related disclosures. These disclosures can be subjected to external review and/or audit.

10. IFSCA to adopt an internationally aligned taxonomy and take active participation in development of common ground between Indian and International taxonomy.

11. IFSCA to take the lead in widening the scope of sustainable finance, through debt, from a few sectors and companies to encompass a greater variety. This will be important in achieving India's NDC targets and climate change goals.

12. IFSC to be developed as a centre for currency hedging solutions to reduce the cost of hedging. IFSCA can create a working group to develop currency hedging products/solutions at IFSC.

Long Term

1. IFSCA could facilitate development of a dedicated lending platform for green/sustainable projects in the MSME sector. The platform will provide opportunity for MSMEs to avail green/sustainable financing through IFSC.
2. IFSCA to explore global taxonomies or processes to label equity as green.
3. IFSCA to encourage stock exchanges based in IFSC to develop a standardised ESG scoring and rating system with company disclosures as the underlying data to score various issuances.
4. IFSCA to revisit certain aspects of IFSCA listing regulations for convertible debt to be in-line with global jurisdictions.
5. IFSCA to facilitate formation and development of green aggregation vehicles (REITs, InvITs, ETF) and facilitate listing on stock exchanges within IFSC to encourage capital flows.
6. IFSCA to strive towards standardization of climate disclosures by entities.
7. IFSCA could consider coordinating with counterparts from Asian countries to implement measures for blended finance structures/de-risking mechanisms.

Annexure I: Principles for green disclosure

The principles for green disclosures can follow broad principles that can be covered under the disclosure framework are as follows:[23]

a. **Scope**: The fundamental question is whether disclosures should cover only climate or include ESG as well. Globally, disclosures have started with climate and gradually progressed to cover ESG. The BCBS is trying to look at climate risk disclosures for financial institutions. In India, SEBI has already issued an ESG disclosure requirement for listed entities that is initially voluntary and then becomes mandatory. The disclosure requirements, however, is from an ESG perspective, and when we look at financial institutions, we are looking at climate risk from a different perspective.

b. **From voluntary to mandatory:** A few leading Indian banks have commenced voluntary climate-related financial disclosures based on the TCFD framework since 2018. This has aided in their overall understanding of climate-related risks and opportunities, allowing them to make better decisions about green and sustainable finance. Given the urgency of the climate crisis today, **disclosures and standards may be made voluntary for FY 2022-23 and mandatory for FY 2023-24 reporting.** This would allow regulated entities sufficient time to understand and adapt to the new requirements. Early adoption could be encouraged in order for them to be at the forefront of sustainability reporting. Firms may also be encouraged to include a 'climate change' page on their website as a useful tool for external communication.

c. **Assurance:** This relates to the potential obligation of firms to receive verification or provide assurance on information they have disclosed. Such verification processes are typically implemented by appointing third-party auditors who are responsible for verifying the disclosed information. Practices in this area vary by jurisdiction, ranging from self-certification to third-party verification. The need for an assurance function entails a cost, as well as technical expertise and resources. This also underscores the importance of capacity building in this area. In such a case, **there could be time-bound self-certification at first, followed by a switchover to third-party certification.**

d. **Disclosure channel:** While some countries require a separate Sustainability Report to be produced for the disclosure of ESG information, in others, ESG-related information must be included in the annual report or on the websites of

[23] The principles were created in consultation with a group of policymakers, experts, investors and regulators as part of NIIF's Green Frontier Initiative

these entities. To ensure adequate visibility to investors as well as seriousness by the companies, recommendation is that **the disclosure should be a part of an annual report and hosted on their websites.** There should preferably be a separate chapter on climate or ESG disclosure in the financial statements with both quantitative and qualitative disclosures.

e. **Underlying definition of materiality:** When identifying and prioritizing ESG issues for disclosure, regulators and reporting entities might apply different materiality approaches. There are two overarching perspectives on materiality in the context of ESG issues: the 'outside-in' and the 'inside-out' perspectives. Taking an outside-in perspective means considering the ESG items as material, which influences the value or performance of the entity. Taking an inside-out perspective, on the other hand, implies that ESG items are material when they are impacted by the entity (also referred to as environmental or social materiality). The most prevalent definitions of ESG materiality are the following: 'Financial Materiality' (reflecting the outside-in perspective), and 'Double Materiality' (considering the outside-in and the inside-out perspectives). Given the direction that global disclosure standards are taking (for example European Commission has introduced double materiality as part of their disclosure guidelines), it may be prudent for India to adopt double materiality as well in a phased manner and begin with financial materiality.

Annexure II: Possible content for capacity building

I. General ESG Awareness Workshops

- Introduction to ESG concepts and terminologies
- Overview of key ESG topics
- ESG for long term value creation
- Significance of ESG in the global and national risk context
- Global initiatives on ESG
- Taxonomy
- Significance of ESG in value creation and sustainable activities
- Approaches adopted by various countries (Voluntary vs Comply or Explain vs Mandatory)

II. Overview of Sustainable Finance Opportunities

- Fundamentals of Sustainable Finance
- Benefits and Opportunities
- Sustainable Finance Products
- Eligibility for availing Sustainable Finance

III. Approach to integrating ESG in sector specific capacity building workshops on ESG by sector-specific industry networks with details on:

- Sector specific material ESG risks and opportunities
- Industry trends and ESG frameworks
- Recommended initiatives to improve EGS performance
- Key Performance Indicators and metrics to track performance

IV. Customised Capacity Building Workshops by Sustainability Consultants for specific topics:

- Board development
- ESG Governance assistance
- Staff and management training
- Information technology assistance
- Reporting preparedness
- Formulation and Implementation of ESG Roadmap

V. For Compliance & Finance professionals

- ESG data collection (criteria for inclusion/exclusion) and verification
- Sustainable Accounting Standards & financial reporting
- ESG reporting
- ESG rating, rating agencies
- Risk policy framework – identification, monitoring and reporting
- Applicable laws, regulations and other requirements

VI. Investment (for managers, advisors, analysts etc.)

- Sustainable investing (setting objectives, monitoring and measuring against benchmark)
- Impact investing
- Climate finance
- Green bonds
- Stewardship policy (voting and engaging with investee companies on ESG matters)
- ESG Reporting

VII. For Directors and KMPs

- Fiduciary and statutory duties of directors with respect to ESG
- Enforcement landscape (prosecution/penalty (nature of liability, e.g. strict liability) and legal proceedings (writs, PIL, green tribunal etc.))
- Environment / climate change related risks and impact on the company / its business
- Policy framework (risk management policy, climate change policy etc.)
- Stakeholder Engagement
- ESG reporting – obligations and compliance framework

VIII. Shareholder engagement

Annexure III: List of ESG debt issuers at IFSC exchanges

Sr. No	Issuers
1	Aavas Financiers Limited
2	Adani Electricity Mumbai Limited
3	Adani Green Energy Limited
4	Adani Green Energy UP Limited
5	Axis Bank Limited
6	Indian Railway Finance Corporation Limited
7	Indian Renewable Energy Development Agency Limited
8	JSW Infrastructure Limited
9	Power Finance Corporation Limited
10	ReNew Wind Energy Delhi Private Limited
11	Shriram Transport Finance Company Limited
12	State Bank of India