GIFT City Express

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ESG INITIATIVES BY IFSCA – PROMOTING INNOVATION AND TRANSPARENCY FOR SUSTAINABLE GROWTH

- IFSCA's ESG initiatives, align with global sustainability goals and aim to foster responsible and sustainable investments.
- These Policy and regulatory frameworks, including ESG debt securities listing, green debt securities disclosure, fund management regulations and innovative FinTech support, enhance transparency and accountability.
- The regulatory sandbox for sustainable finance and Green FinTech Grant incentivizes innovative solutions in green finance, contributing to India's goal of net zero emissions by 2070.

INTRODUCTION

In the recent years, environmental, social and governance ("ESG") factors have emerged as the crucial pillar in guiding responsible and sustainable investments.[1] The International Financial Services Centres Authority ("**IFSCA**") recognizing the significance of ESG initiatives in achieving sustainability and fostering economic growth, has taken proactive steps to integrate ESG initiatives within the Gujarat International Finance Tech-City ("**GIFT City**"). This article explores the multifaceted impact of IFSCA's ESG initiatives on sustainability and growth, elucidating the meticulous strategies and policy frameworks that are shaping a new era of responsible finance in GIFT City.

I. POLICY AND REGULATORY FRAMEWORK

IFSCA has implemented several initiatives to promote ESG investments in GIFT City, including strategic partnerships with organizations such as the Climate Policy Initiative[2] ("**CPI**") and the Council on Energy, Environment and Water[3] ("**CEEW**"). These measures have resulted in comprehensive policy and regulatory frameworks designed to enhance transparency, accountability and sustainable investments in line with recognized frameworks.

1. Listing of ESG debt securities

IFSCA introduced the IFSCA (Issuance and Listing of Securities) Regulations, 2021,[4] which lay down specific requirements for the listing of ESG debt securities labelled as "green," "social," or "sustainability" or "sustainability-linked" securities on recognized stock exchanges within the International Financial Services Centre ("**IFSC**").[5] The funds raised through these securities are directed toward projects adhering to recognized frameworks,[6] thereby promoting responsible investments.

The move not only encourages issuers to adhere to sustainability objectives but also provides investors with the necessary transparency and information to assess the impact of their investments. The regulation puts an obligation on the issuer of securities to make mandatory annual disclosures regarding the utilization of proceeds, allocation to projects/assets and qualitative/quantitative performance indicators of the expected/achieved ESG impact. Additional disclosures are to be provided in the offer document or information memorandum.[7] Furthermore, the requirement for independent external reviewers to confirm alignment with recognized framework further enhances credibility and ensures compliance with recognized standards.

2. Disclosure requirements for green debt securities

IFSCA, in alignment with the Securities and Exchange Board of India, revised Chapter IX of the operational circular for non-convertible securities.[8] This revision aligns the framework for green debt securities with the updated Green Bond principles recognized by International Organization of Securities Commissions. This revision ensures additional disclosure requirements for issuers, including project eligibility criteria, taxonomies and certifications, thereby, enhancing investor protection and transparency in the market.

3. Fund regulation

IFSCA in order to promote consistency, reliability and comparability in sustainability related disclosure concerning ESG schemes, issued a circular on January 18,2023, [9]specifically for fund managers launching and managing ESG schemes. The circular mandates fund managers intending to launch and manage ESG schemes[10] to make mandatory initial disclosures pertaining to nature and extent of the scheme's, ESG-related investment objectives, strategies and methodology for ESG investment. The disclosures include initial investments, monitoring engagement and exits. Additionally, for a retail scheme launched by a fund manager, besides making annual disclosures, the fund manager will also be required to make mandatory half yearly periodic disclosures to maintain transparency and credibility.[11]

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Furthermore, IFSCA has taken a significant step towards promoting sustainability through the IFSCA (Fund Management) Regulations, 2022 ("**FM Regulations**").[12] The FM Regulations require fund managers managing asset under management ("**AUM**") exceeding USD 3 million to address material sustainability-related risk and opportunities in their investment decisions. The regulations mandate such fund managers to establish policies governing the management of such material sustainability risks and opportunities along with making mandatory disclosures with respect to their processes for addressing and integrating ESG considerations and investment schemes related to ESG. Moreover, the FM Regulations require all fund managers (regardless of AUM or investment strategy) to clearly disclose in their private placement memorandum whether or not sustainability related risks are incorporated in the decision-making thereby providing transparency to investors.

4. IFSCA Guidance framework on Sustainable and Sustainability linked lending by financial institutions ("SF Framework")[13]

SF framework promotes sustainable lending practices among financial institutions including all IFSC Banking Units and Finance Company/Finance Units operating in the IFSC. The framework mandates lending institutions undertaking lending as one of the permitted activities to allocate a minimum of 5% of their gross loans and advances[14] towards green, social, sustainable or sustainability-linked sectors/facilities.[15] This framework emphasizes mandatory development of a comprehensive Board-approved policy on sustainable and sustainability-linked lending.[16] The framework also mandates that the policy should cover borrower assessment, use of proceeds, project evaluation and selection, reporting mechanisms, monitoring and de-classification of lending facilities, along with selection of KPIs, reporting and performance verification.

The SF framework further mandates the lending institutions to report on overall sustainable financing and sector-wise classification of ESG financing on a bi-annual basis.[17]

II. INNOVATION INCENTIVES IN GIFT CITY

Incentives within GIFT City are instrumental in promoting innovation in sustainable finance.

1. Regulatory Sandbox

The regulatory sandbox for sustainable finance offers FinTech entities a secure environment to develop and test innovative sustainable finance solutions. To qualify, entities must demonstrate the novelty of their concepts and showcase potential benefits. Successful participants receive a "Limited Use Authorization" and may access incentives and grants under the IFSCA FinTech Incentive Scheme 2022[18], including the Green Fintech grant thereby stimulating sustainable finance innovation for both start-ups and entities collaborating with IFSCA.[19]

2. Green FinTech Grant

The Green FinTech Grant fosters collaboration among the government, academia and industry to support India's 2070 net-zero emissions target. Eligible FinTech Entities under the Green FinTech framework may receive a grant of up to INR 75 lakhs to further their efforts in sustainable finance. The grants received by the applicant are on a reimbursement basis and the applicant is obligated to achieve certain milestone with respect to the grant taken by him under the scheme.

CONCLUSION

The initiatives and policy framework introduced by the IFSCA to promote sustainable finance through GIFT City represent a significant step towards responsible and socially conscious investing. The introduction of specific regulations for listing ESG debt securities, strategic partnerships with organizations like CPI and CEEW and the establishment of a regulatory sandbox, demonstrate India's commitment to responsible investing. These measures not only encourage issuers to adhere to sustainability objectives but also provides investors with the necessary transparency and information to assess the impact of their investments, while helping to mitigate the risk of greenwashing.

Additionally, the incorporation of sustainability considerations into the FM Regulations marks a significant advancement in the aligning financial interest with goals of sustainability and responsible investment for a more resilient and environmentally conscious financial sector. These regulations require all fund managers to disclose their approach to sustainability risks in decision-making, with a specific mandate for fund managers overseeing AUM above USD 3 billion to address sustainability-related risks and opportunities. This initiative not only enhances transparency within the industry but also empowers investors to actively contribute to the growth of sustainable finance in GIFT-IFSC.

IFSCA's multifaceted approach, backed by strategic partnerships, regulatory initiatives and financial incentives, positions GIFT City as a nexus of innovation and sustainability in the world of finance. By promoting responsible and sustainable investing practices, GIFT City is not only contributing to financial growth but also playing a pivotal role in advancing environmental and social well-being, in line with the global shift towards ESG considerations.

– Sehar Sharma, Rahul Rishi & Radhika Parikh

You can direct your queries or comments to the authors.

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[1]https://www.un.org/en/academic-impact/ sustainability#:~:text= In%201987%2C%20the%20United %20Nations,to%20meet%20their %20own%20needs.%E2%80%9D

[2]https://www.ifsca.gov.in/ Viewer?Path=Document%2FLegal%2Fpress-release_ifsca-and-cpi- sign-mou-to-cooperate-on-sustainable-finance12072023125943 .pdf&Title=The%20International%20 Financial%20Services%20 Centres%20Authority%20and%20Climate%20Policy%20 Initiative%20sign%20 MoU%20to%20cooperate%20on%20 Sustainable%20Finance& Date=12%2F07%2F2023

[3] https://www.bing.com/ck/a?!&&p=df56013701821dffJmltdHM9MTY5NzA2OD gwMCZpZ3VpZD0xNTg1NTA3NS1mMjQ3LTY3OGQtMG UxZC00M2VlZjY0NzYxN2EmaW5zaWQ 9NTIyMA&ptn=3 &hsh=3&fclid=15855075-f247-678d -0e1d-43eef647617a&psq=ifsca+m ou+with+ceew&u=a1aHR0cHM6Ly93d3cua WZzY2EuZ292LmluL0RvY3VtZW50L0x lZ2FsL3ByZXNzLXJlb

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[4]https://ifsca.gov.in/Legal/Index?MId=SMnZNwn7r8g

[5]International Capital Market Association Principles/Guidelines, Climate Bonds Standard, ASEAN Standards, European Union Standards/Taxonomy, frameworks/methodologies specified by Indian competent authorities, or other international standards

[6]Climate Bond Standards, International Capital Market Association Principles etc.

[7]For sustainability-linked debt securities, besides making the above-mentioned disclosures, the disclosures encompass the rationale for issuance, consistency with the issuer's overall sustainability and business strategy and adherence to pre-issuance and post-issuance obligations based on international standards.

[8]https://www.sebi.gov.in/ legal/circulars/feb-2023/revised-disclosure-requirements-for-issuance-and-listing-of-green-debt-securities_67837.html

[9]https:// ifsca.gov.in/Document/Legal/disclosures-by-fund-management-entities-for-environmental-social-or-governance-esg-schemes18012023065239.pdf

[10]"ESG schemes" would mean and include such retail schemes, Exchange Traded Funds (ETFs), restricted schemes and venture capital schemes, which: (A) have terms, such as 'Environment', 'Social', 'ESG', 'Green', 'Sustainability' or any combination thereof or similar terms, incorporated in their names, or (B) represent or market themselves as ESG focused schemes.

[11]https://pib.gov.in/PressReleaseIframePage.aspx?PRID=1892049

[12]https://ifsca.gov.in/ Document/Legal/ifsca-fund-management-regulations-2022-as-amended-upto-april-11-202324042023105305.pdf

[13]https://www.ifsca.gov.in/ Document/Legal/draft-press-release-final-lending-framework02032022083249.pdf

[14]Gross loans and advances according to the FAQs released by IFSCA on SF Framework shall include: All outstanding loans and advances as classified for the purpose of reporting to the Authority shall form the base for computation of the five percent target. The definition as prescribed by the home country regulator may be adopted for the purpose of computation. These shall not include non-fund based exposures, any investments made by the entity, derivatives and any other off-balance sheet items. (https://ifsca.gov.in/Document /Legal/faqs-on-sl-framework-22-02-202322022023065644.pdf)

[15]This five percent target will be calculated based on incremental loans and advances in comparison to the amount at the end of the previous financial year.

[16]According to the FAQs released by IFSCA on SF framework all IBUs and FC/FU should mandatorily get their policy registered by March 31, 2023 and for new entities registered/licensed post April 26, 2022, shall have a 12-month grace period to develop the required policies and start implementing the lending targets. (https://ifsca.gov.in/ Document/Legal/faqs-on-sl-framework-22-02-202322022023065644.pdf)

[17]https://ifsca.gov.in/Document/Legal/ faqs-on-sl-framework-22-02-202322022023065644.pdf

[18]https://ifsca.gov.in/Document/ Legal/press-release-on-guidelines-of-ifsca-fintech-incentive-scheme_2022_approved120920220613322309202303 2321.pdf

[19]https://giftsez.com/documents/ Circular/Framework_for_ FinTech_Entity_in_the_ International_Financial_ Services_Centres.pdf