

Expanding the scope of Sustainable Finance Framework in the Indian Securities Market by amendments to SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021

1. Objective

This Board Memorandum proposes amendments to the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021 (hereinafter referred to as "NCS Regulations") for introduction of framework for social bonds, sustainability bonds and sustainability-linked bonds (in addition to existing Green Debt Securities) as a mode of raising sustainable finance. Green Debt Securities, Social Bonds, Sustainability Bonds, and Sustainability-linked Bonds are collectively termed as Environment, Social and Governance (ESG) Debt Securities.

2. Background and need for review

2.1. The Hon'ble Finance Minister in the budget announcements for FY 2023-24, inter-alia, made an announcement to simplify, ease and reduce cost of compliance for participants in the financial sector through a consultative approach.

2.2. Accordingly, to align the process of review with the budget announcement, a working group for review of compliance requirements under NCS Regulations was formed, which recommended certain measures to promote the ease of doing business for issuance of non-convertible securities.

2.3. One of the recommendations of the working group was to redefine "green debt security" as "sustainability-linked security" as sustainability-linked security would cover a wider spectrum of sustainable finance instruments whereas green debt securities appears to only reflect the instruments related to environmental sustainability.

2.4. Further, SEBI received representations from market participants including Confederation of Indian Industry (CII) to expand the scope of regulatory framework pertaining to sustainable finance to include Social Bonds, Sustainability Bonds and Sustainability-linked Bonds in addition to existing Green Debt Securities as a mode of raising sustainable finance, in line with global practices.

2.5. Generally, Thematic Bonds (including ESG Debt securities) are classified into two types:

2.5.1. Use of proceeds (UoP) bonds: UoP bonds are securities earmarked for specific projects designed to generate the intended impacts.

2.5.2. Key performance indicator (KPI) bonds: KPI bonds are required to meet the overarching goals of sustainability and ESG objectives but are not tied to any project or specified output (as in the case of UoP bonds).

2.6. SEBI's extant regulatory framework covers only a limited part of UoP bonds focusing only on the projects/ asset class related to environmental sustainability in terms of the extant definition of Green Debt Securities. It does not cover other classes of UoP Bonds and KPI Bonds as a mode of sustainable finance. Therefore, to enable issuers to tap the market to raise funds through issuance of Social Bonds, Sustainability Bonds and Sustainability Linked Bonds, it is proposed to introduce the framework for such securities.

3. Review Process and Analysis

3.1. The recommendation of the working group and representation received from market participants, was placed before the Corporate Bonds and Securitization Advisory Committee (hereinafter referred as 'CoBoSAC') in its Meeting held on April 10 2024 and July 31, 2024 respectively. The committee members recommended to align the definition of such securities with the practices followed globally.

3.2. Taking into account the recommendations of the Working Group and CoBoSAC and, representation from market participants, SEBI published a consultation paper titled “consultation paper on expanding the scope of sustainable finance framework in the Indian securities market” on August 16, 2024 seeking comments/ views/ suggestions from the public inter-alia on the proposals mentioned therein and reproduced hereunder:

3.2.1. Introduction of framework for Social Bonds, Sustainability Bonds and Sustainability-linked Bonds(which together with Green Debt Securities are termed ESG Debt Securities) as a mode of sustainable finance;

3.3. Analysis of public comments

3.3.1. 32 entities/ persons responded to the public consultation paper. The respondents included Issuers, Investors, ESG Rating Providers, Credit Rating Agencies, Law Firms, Think Tanks, and NGOs etc. Summary of the responses received is as under:

Proposal No.	Proposal Description	Strongly Agree + Agree	Partially Agree	Disagree	Total Count
(1)	Proposal for introduction of framework for Social Bonds, Sustainability Bonds and Sustainability linked bonds (which together with “Green Debt Securities” are termed as ESG Debt Securities) to expand the scope of	28	3	1	32
		88%	9%	3%	100

Proposal No.	Proposal Description	Strongly Agree + Agree	Partially Agree	Disagree	Total Count
	sustainable finance in the Indian Securities Market				

3.4. The proposals consulted in the abovementioned consultation paper, suggestions received from the public and views of SEBI thereon are summarized at Annexure A.

3.5. Based on recommendations of the working group, CoBoSAC, review of comments received from public and internal deliberations, this memorandum is placed before the Board for approval.

4. Introduction of framework for social bonds, sustainability bonds and sustainability-linked bonds (which together with “Green Debt Securities” are termed as ESG Debt Securities) **as a mode of raising sustainable finance**

4.1. Extant Regulatory framework:

4.1.1. The current regulatory framework, under Regulation 26 of the NCS Regulations enables issuers to raise funds through issuance of green debt securities which reads as under:

“26 An issuer desirous of issuing and listing of green debt securities shall comply with the conditions as may be specified by the Board”

4.2. Proposals for consideration of the SEBI Board:

4.2.1. With a view to expand the scope of sustainable finance in Indian securities market, it is proposed issuers may also raise funds through issuance of social bonds, sustainability bonds and sustainability-linked bonds (which together with green debt securities will be termed ESG Debt Securities), which will be

in accordance with such international frameworks¹ as adapted and/ or adjusted to suit Indian requirements that are specified by SEBI from time to time. To give effect to this proposal suitable amendments would be made to the NCS regulations.

4.2.2. It is also proposed that SEBI will work with Industry Standards Forum (ISF)² for seeking necessary feedback and recommendations to specify the detailed framework including the definitions and disclosure requirements for ESG Debt Securities (other than green debt securities³). Further, ISF may formulate industry standards in consultation with SEBI for issuance and continuing disclosures regarding such securities.

5. Proposal to the Board:

5.1. The Board is requested to:

5.1.1. consider and approve the proposals under para 4.2.1 and 4.2.2, above.

5.1.2. approve the consequent draft amendment notification placed at Annexure B;

5.1.3. authorize the Chairperson to make consequential and incidental changes and take necessary steps to give effect to the decisions of the Board.

¹Some of the international frameworks which could be considered by ISF for providing recommendations to SEBI are listed below:

- Green Bond Principles of ICMA, or
- Social Bond Principles of ICMA, or
- Sustainability Bond Guidelines of ICMA, or
- Sustainability-Linked Bond Principles of ICMA, or
- Climate Bond Standard of the Climate Bond Initiative

² In line with its commitment to facilitate capital formation in the economy and ease of doing business, SEBI has set up various Industry Standards Forums including ISF for debt market, comprising of representatives from Industry Associations under the aegis of the Stock Exchanges. The ISF would formulate standards for implementation of specific regulations and circulars, based on feedback from industry and stakeholders, in consultation with SEBI.

³ Definition of green debt security is specified under Regulation 2(1)(q) of NCS regulations

Annexure A

Summary of Public Feedback, views of SEBI and CoBoSAC

Proposal/ Topic	Views of CoBoSAC	Summary of public comments	Views of SEBI
<p><u>Proposal</u></p> <p>Proposal for introduction of framework for Social Bonds, Sustainability Bonds and Sustainability linked bonds(which together with Green Debt Securities are termed as ESG Debt Securities) to expand the scope of sustainable finance in the Indian Securities Market</p>	<p>CoBoSAC agreed to expand the scope of sustainable finance and recommended to align the definition of such securities with the practices followed globally</p>	<p>31 out of 32 responses are in favour of the proposal to introduce the framework for social bonds, sustainability bonds and sustainability-linked bonds. The one comment which was in disagreement did not provide any comments/ rationale for the disagreement.</p> <p>Further, few public comments suggested that the term “ESG debt securities” may not adequately reflect the idea of sustainable finance and cause confusion and therefore, the term “Sustainable Debt Securities” or “Sustainable Finance Debt Securities” or “Sustainability Debt Securities” may be used instead of ESG debt Securities</p>	<p>It may be noted that globally, green, social, sustainability, and sustainability-linked (SLBs) bonds are known by various terminologies such as Sustainable Bonds (used by ICMA), GSS+ bonds (Used by climate bond initiative) etc. However, in Indian Context, International Financial Services Centres Authority (IFSCA) uses the term ESG debt securities to collectively define such securities and accordingly, the same nomenclature may be used in the Indian Capital Debt Market</p>

Annexure B

Draft Notification

Amendment shall be notified after following the due process