# SEBI - ESG Funds

## Why in news?

SEBI recently came out with a consultation paper for introducing disclosure norms for ESG (environment sustainability and governance) mutual fund schemes.

## What are ESG funds?

- ESG Mutual Funds are Thematic Mutual Funds that invest in socially responsible companies.
- ESG funds are those funds whose asset allocation mostly includes shares and bonds of companies that are evaluated based on the environmental, social, and governance factors.
- An organisation is said to be ESG compliant if it meets all the criteria of environmental, social, and governance standards.
- The ESG companies are assessed on their sustainability before they are given the tag.
- The ESG parameters reflect on an organisation's culture, the risk involved, and management, among other things.

**Criteria included, among others**

**Environment:** Companies that -

- put out carbon or sustainability reports
- Limit harmful pollutants and chemicals
- Seek to lower greenhouse gas emissions
- Use renewable energy sources

**Social:** Companies that -

- operate an ethical supply chain
- support LGBTQ rights and encourages diversity
- have policies to protect against sexual misconduct
- pay fair wages

**Governance**: Companies that –

- embrace diversity on their board
- embrace corporate transparency
- employ a CEO independent of the board chair

## What are the SEBI's recent proposals?

- Earlier in 2017, SEBI had said that sectoral or thematic funds must have at least 80% of investments in specific sectors or themes.
- Now, SEBI has specified that ESG funds should have at least 80% of their total assets in

securities following the sustainable theme, since these funds fall under the thematic category.
- The rest 20% assets should not be in stark contrast with the ESG philosophy.
- The AMCs (Asset Management Companies) should disclose the nature and extent of the scheme's ESG-related objectives and the approach used for screening companies.
- This will help investors judge if the fund meets their requirements.
- ESG funds should only invest in companies which have filed Business Responsibility and Sustainability Report (BRSR) from October 1, 2022.

## What is the rationale?

- With the increased emphasis on adopting sustainable growth, there has been a surge in ESG investing globally.
- ESG assets surpassed $35 trillion by the end of 2020.
- The momentum is expected to continue with ESG funds accounting for a third of global assets under management in 5 years.
- Investing based on the ESG theme is beginning to attract higher interest in India too.
- As per SEBI data, at the end of September 2021, there were 8 ESG thematic equity schemes with assets under management (AUM) of ₹12,085 crore.
- However, the regulation of this segment is at a nascent stage, globally and nationally.
- SEBI's recent norms is an effort to tighten the disclosure, strategies and practices of funds based on the ESG theme.
- It will help check ambiguity and usher in transparency.

**Reference**


1. https://www.thehindubusinessline.com/opinion/editorial/governing-esg/article37326650.ece
2. https://www.livemint.com/mutual-fund/mf-news/sebi-suggests-esg-funds-must-be-80-invested-in-securities-following-the-theme-11635254078247.html
3. https://cleartax.in/s/esg-funds



SHANKAR IAS PARLIAMENT
Information is Empowering