

## SPTF Social Investor Working Group

April 21, 2021

### Implementation of Client Protection Pathway

- Over the past 8 months we gathered market feedback on the CPP and suggestions for a future committing and engaging client protection “pathway”, by consulting with funders (MIVs and DFIs), FSPs, auditors, rating agencies, and others.
  - SPTF’s Social Investor Working Group created a subgroup on client protection.
  - Over 80 FSPs answered a survey on the future of client protection in the industry.
  - A group of rating agencies gave detailed feedback in multiple rounds for a new client protection certification framework.
  
- From these consultations, we identified three primary needs:
  - Though client protection is an integral part of SPM, the Client Protection standards and evaluation should also remain available as a “standalone” product.
  - Investors need a transparent way to find out which FSPs are serious about client protection. In the same way, FSPs that are serious about client protection need a way to differentiate themselves from less responsible actors in the industry.
  - The industry needs better ways to recognize not only the “gold standard” of client protection—full compliance with certification standards—but also intermediary steps and improvement.
  
- The new Client Protection Pathway describes the steps that a FSPs can take to improve its client protection practices and communicate this progress to investors.
  - Step 1: Commit to implement client protection
  - Step 2: Assess your practices and make improvements
  - Step 3: Demonstrate your achievement
  
- The new Pathway gives providers a roadmap for implementing the Client Protection Standards and helps them stay on track.
  - The FSP’s status is public on our website.
  
- The new CP Pathway is designed to:
  - 1. Motivate the FSP to keep moving to the next step.
  - 2. Make it easier for funders and regulators to identify committed providers.
  - 3. Connect the FSP with the global community of like-minded organizations
  
- Questions from investors:
  - “We would like to encourage our partners to get certified. For those who do not have experience, how do they get started? Where should we direct them to?”
    - Get started questionnaire and self evaluation with US/ SPI
  - “What is understood by certification bodies? Are these organizations or individuals?”
    - The certification bodies have to be formal organizations. There is a defined list of questions and requirements that will be asked before SPTF/CERISE issue an approval for an organization to proceed to external evaluations.
  - “Will the FIs with certification in the past system be directly assigned to the second or third stage or will all institutions have to start at stage 1?”
    - If the FSP is certified today, their certification is valid for the next 2 years. The validity of future certifications is moving from 2 to 3 years.
  - “When will the SPI online will be ready to be used as a platform for this pathway?”
    - The timeline to update SPI with the new dimension standards is by the end of 2021 and ready for use beginning of 2022. SPI Online / ALINUS is available for current use.

## Investors' experiences using the Responsible Covenants during COVID-19

- Edouard Sers from Foundation Grameen Credit Agricole shared key lessons learnt from working with the **Lenders' Guidelines for Setting Covenants in Support of Responsible Microfinance** in the COVID-19 context.
- Key lessons include:
  - COVID restructured loans may include **COVID moratoria, COVID individually restructured loans or more rarely both**. These practices are usually required or encouraged by the regulator; or adopted as an accepted practice due to imposed lockdowns and other restrictions.
  - **COVID moratoria** are reported differently by MFIs
    - **Moratorium status maintained until maturity:** as soon as the loan benefits from a moratorium, the MFI maintains the loan under the moratorium status until it is fully repaid
    - **Moratoria status maintained only during grace period:** the MFI maintains the loans under moratorium status only during the time when the loan is suspended; then it is not reported anymore
- Lessons for reporting:
  - In rare cases when MFIs have both COVID moratoria and COVID individually restructured loans, request MFIs to report them separately
  - If needed, remind MFIs not to include late loans in these categories
  - **Keep monitoring the share of COVID moratoria** with a preference for the most conservative (status maintained until maturity), bearing in mind that these loans proved not to be particularly risky
  - Start monitoring **loans that benefited from more than one COVID moratoria and/or restructuring** as they are probably the riskiest.

## Update on creation of SFDR technical working group

- We have created a **technical subgroup on the SFDR**. This group had a first call end of March and will meet monthly. Next call is on April 28<sup>th</sup>.
- SPTF with and by the introduction by e-MFP had a meeting with the Head of the Asset Management unit in the European Commission (DG FISMA). This unit is in charge of SFDR and we have been invited to submit our sector's main questions and challenges with SFDR implementation.
- We are going to prepare this document which hopefully can contribute to shape the implementation discussions currently under development.
- e-MFP and SPTF will introduce a sector description to allow to position the relevance and historic experience of our industry. The jointly agreed upon relevant questions coming from Investment managers and MIVs will be shared with the Commission. We would like to provide this letter to the EC by end of May latest.
- We also will prepare a proposal to position our sector experience in the EC work on social taxonomy, which is under the remit of the Sustainable Finance unit in DG FISMA. We have been informed that the social taxonomy work is delayed as the EC is focusing now on finalising the environmental aspects of the EU sustainable finance package.
- If you are interested in joining the sub-group, email [allyryder@sptfnetwork.org](mailto:allyryder@sptfnetwork.org).