

ESG and BRSR Navigating ESG Compliance

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Business Responsibility and Sustainability Reporting (BRSR)

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Introduction

Expending more than we have..

1 Our consumption of **natural resources** has become more than **three times in 40 years**

2 An estimated **7 million people die** from **air pollution** worldwide every year

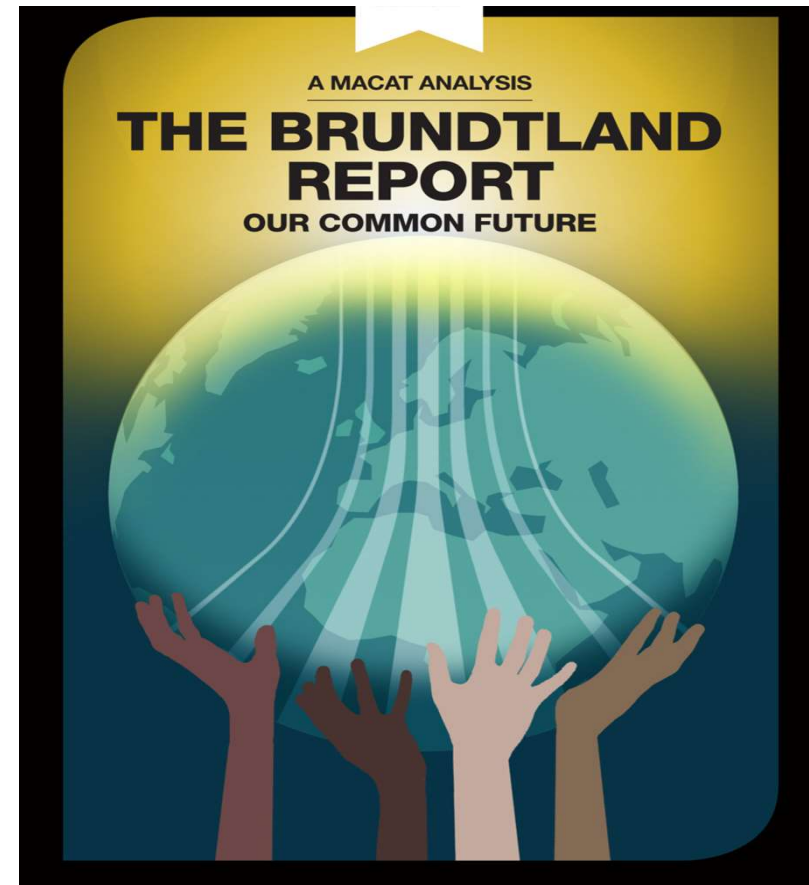
3 By the year **2030**, the planet might have only **10% of its forests**

4 Currently, roughly **11 million tons of plastic** make its way into the oceans every year

What is sustainability?

In 1987, in the famous **Brundtland Report**, produced by several countries for the UN, led by **Doctor Gro Harlem Brundtland**, this term was defined as:

“Sustainability is meeting today’s need without compromising with ability of future generations to meet their needs”



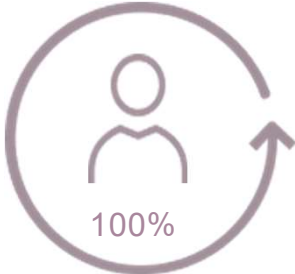
Why businesses pursue sustainability?



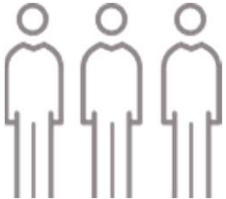
Increased productivity



Assured business continuity



Stakeholder satisfaction

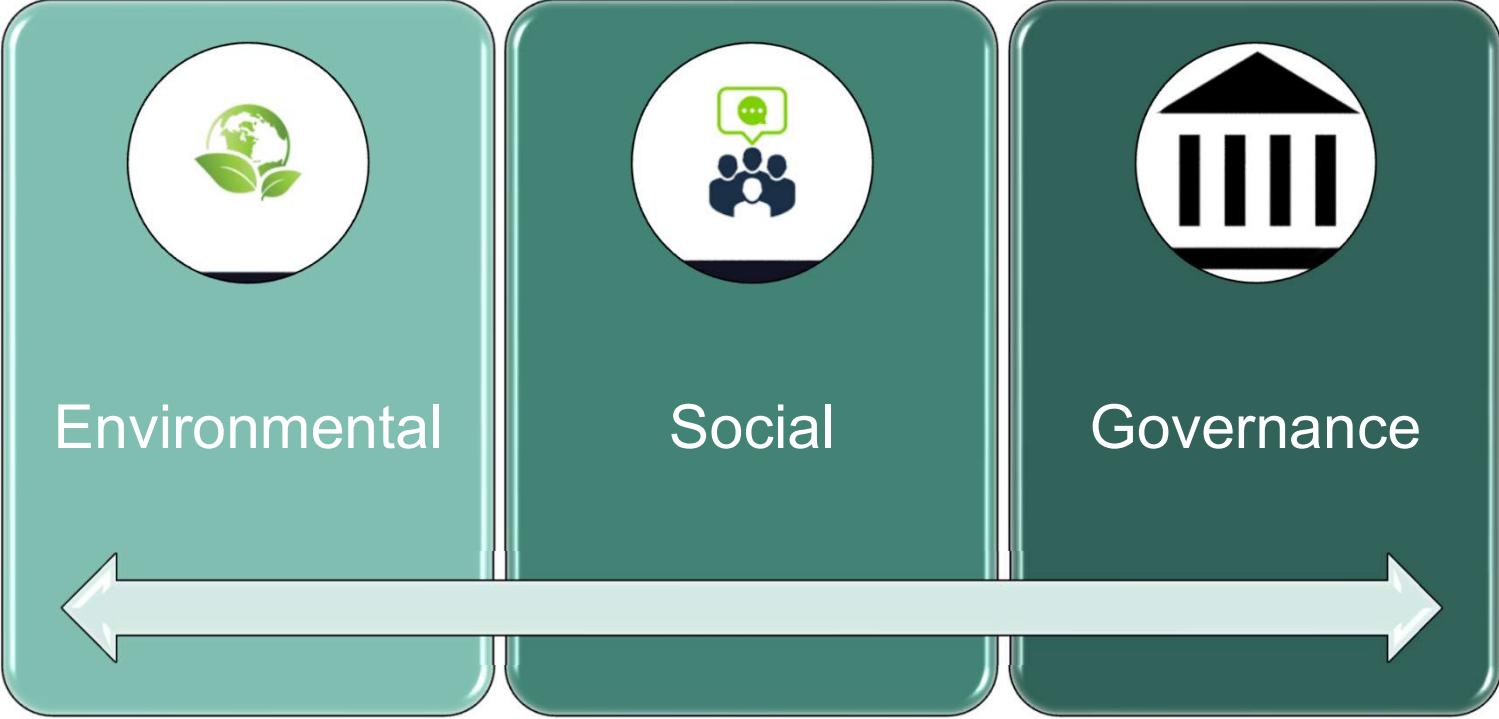


Attract employees/ investors



Improved brand image

ESG- A Triple Bottom Approach



Sustainability reporting- disclosure and communication of an entity’s non-financial - ESG performance and its overall impact.

Based on Nine principles of NGRBC

- The nine principles in NGRBC are categorized into the ESG components of Environment, Social and Governance with **two** of the nine in **Environment**, **three** in **social** and **four** in **Governance**.



Business responsibility and sustainability reporting (BRSR)

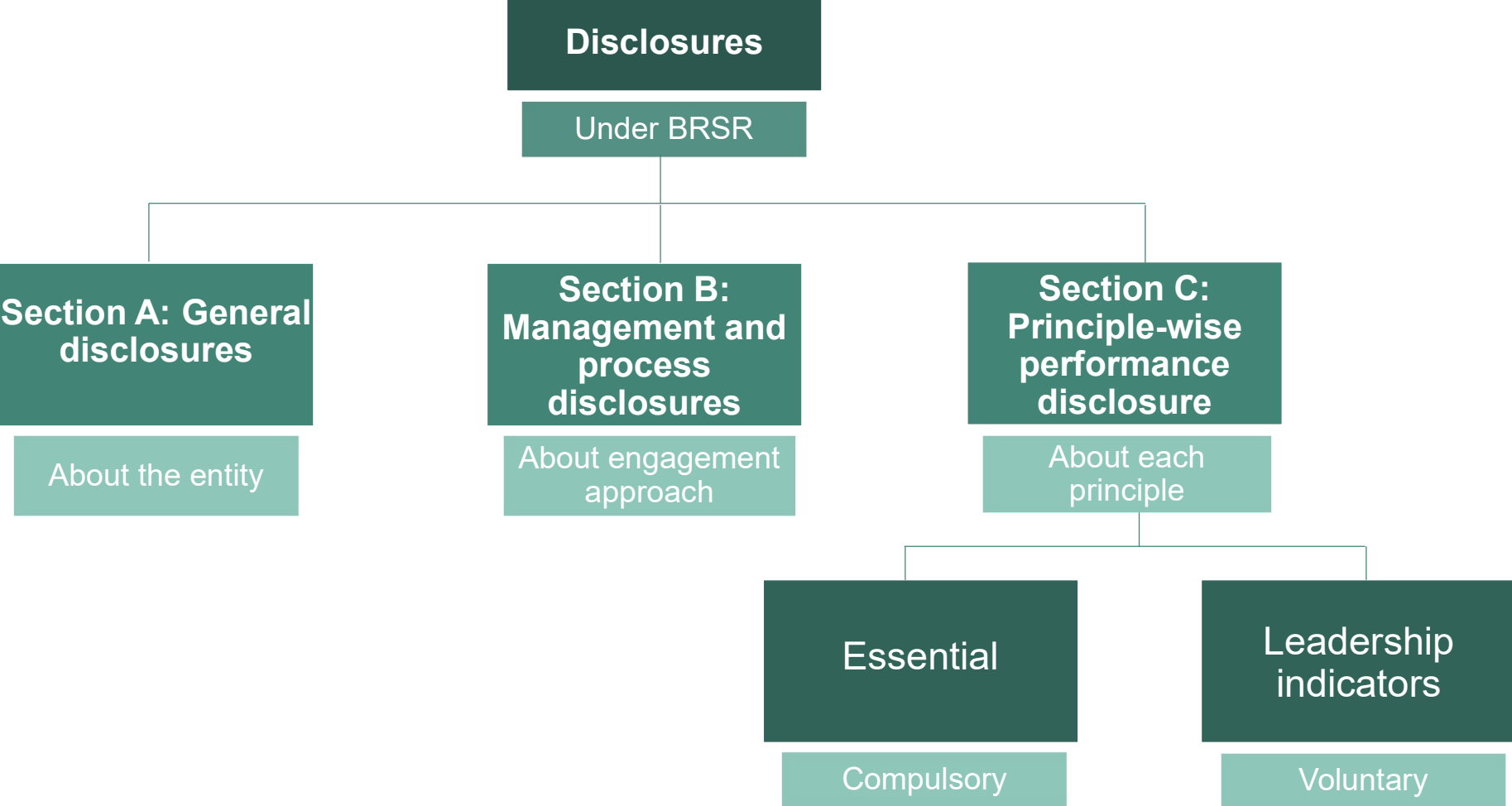
Report of the committee on business responsibility reporting

- So far we know, **top 1000 listed cos** based on **market capitalisation** were to **file Business Responsibility Report (BRR)** as per the **format prescribed by SEBI**.
- In August 2020, the MCA's committee had recommended '**Business Responsibility and Sustainability Report**' for **listed and unlisted Cos** to be **applied** in a **phased manner**.
- Post that **SEBI** prescribed BRSR compliance for **top 1000 listed cos**, as per the following schedule:

Financial Year	Basis
2021-22	On voluntary basis.
2022-23	On mandatory basis.

- SEBI has also **issued** the **format** of the **BRSR** for the **listed cos**.

BRSR Framework Structure



Comparison of BRR disclosures and BRSR disclosures

Components of BRR	Components of BRSR
Section A: General information about the co.	Section A: General disclosures - More detailed disclosures with few more additions.
Section B: Financial details of the co.	Shifted to Part I of section A and Part VI of section A in the new format.
Section C: Other details - Information about subsidiaries and BR initiatives of the subsidiaries, if any	Shifted to Part V: Holding, subsidiary and associate cos. (including joint ventures) of section A.
Section D: BR information - Details of the BR efforts based on the 9 principles of the NVG framework	Section B: Management and process disclosures - Structures, policies and processes put in place toward adopting the principles and core elements based on the NGRBC framework
Section E: Principle-wise performance	Section C: Principle-wise performance disclosure Essential Indicators and Leadership Indicators in a much more detailed manner are included.

The key focus around BRSR.....

BRSR reporting is **not only** limited to disclosing:

- **Positive** opportunities,
- **Initiatives**; and
- Minimal **KPIs**

but stakeholders are also **interested to know**:

- the **risks** that are taken into consideration,
- the **implications** of those risks in future,
- the **targets**, and the designed **roadmap**

Additional key disclosures requirement in BRSR as compared to BRR

Section A - General disclosures

Section – A General disclosures

Topic	Key disclosures
Employees	Employees and workers and significant change and reasons .
	Disclosure on no. of women comprising the BOD and KMP
	Trends for the past 3 yrs of turnover rate for permanent employees and workers
Transparency and disclosure compliances	Complaints on any aspect of the NGRBC and stakeholder's details
Overview of the entity's material RBC issues	Material RBC and sustainability issues pertaining to ESG matters

Section – B Management and process disclosures

Section B - Management and process disclosures

Topic	Key disclosures
Policy and management processes	Confirmation if entity's policies cover each principle of the NGRBCs
	Name of the national and international codes/certifications/labels/standards and mapped to each principle.
	Specific commitments, goals and targets if any.
	Performance against commitments etc. goals along with reasons if not met.
Governance, leadership and oversight	Statement by the director responsible for the BRSR on ESG related challenges, targets and achievements.
	Highest authority responsible for the implementation and oversight of the business responsibility policies.
	Whether an external agency has carried out an independent audit/evaluation of the working of its policies.

**Section C - Principle-wise
performance disclosures – Divided
into Essential & Leadership Indicators**

Section C - Principle-wise performance disclosures – Divided into Essential & Leadership Indicators

Principle	Key disclosures
Principle 1: Businesses should conduct and govern themselves with integrity , and in ethical, transparent and accountable manner	Trainings programs for the BOD, KMP, employees and workers
	Fines/penalties paid in proceedings and corrective actions undertaken
	Complaints received- Conflict of interest of the directors and KMPs.
	Details relating to anti-corruption or anti-bribery policy
Principle 2: Businesses should provide goods/ services in a sustainable and safe manner	Disclose % of R&D and capital expenditure
	Procedures for sustainable sourcing
	Whether Extended Producer Responsibility (EPR) is applicable and whether the waste collection plan is in line with the EPR plan
	Life Cycle Assessments (LCA) of any of the entity's products or services
	Processes in place to safely collect, reuse, recycle and dispose products at the end of life of products.

Section C - Principle-wise performance disclosures – Divided into Essential & Leadership Indicators contd..

Principle	Key disclosures
Principle 3 Businesses should respect and promote the well being of all employees , including those in their value chain partners	Measures for the well-being of the employees and workers.
	Retirement benefits extended to its employees and workers
	a. Premises/offices of the entity accessible to differently abled employees b. Equal opportunity policy per Rights of Persons with Disabilities Act, 2016 c. Mechanism- Redress grievances of employees and workers
	Performance and career development reviews of employees and workers.
	Corrective actions taken for significant risks for health and safety practices
Principle 4: Businesses should respect the interests and be responsive to its stakeholders .	Processes for identifying key stakeholder groups
Principle 5: Businesses should respect and promote human rights	Trainings provided to employees/ workmen on human rights
	Minimum wages paid to employees and workers
	Mechanisms to protect complainant from adverse consequences wrt discrimination and harassment cases.

Section C - Principle-wise performance disclosures – Divided into Essential & Leadership Indicators contd..

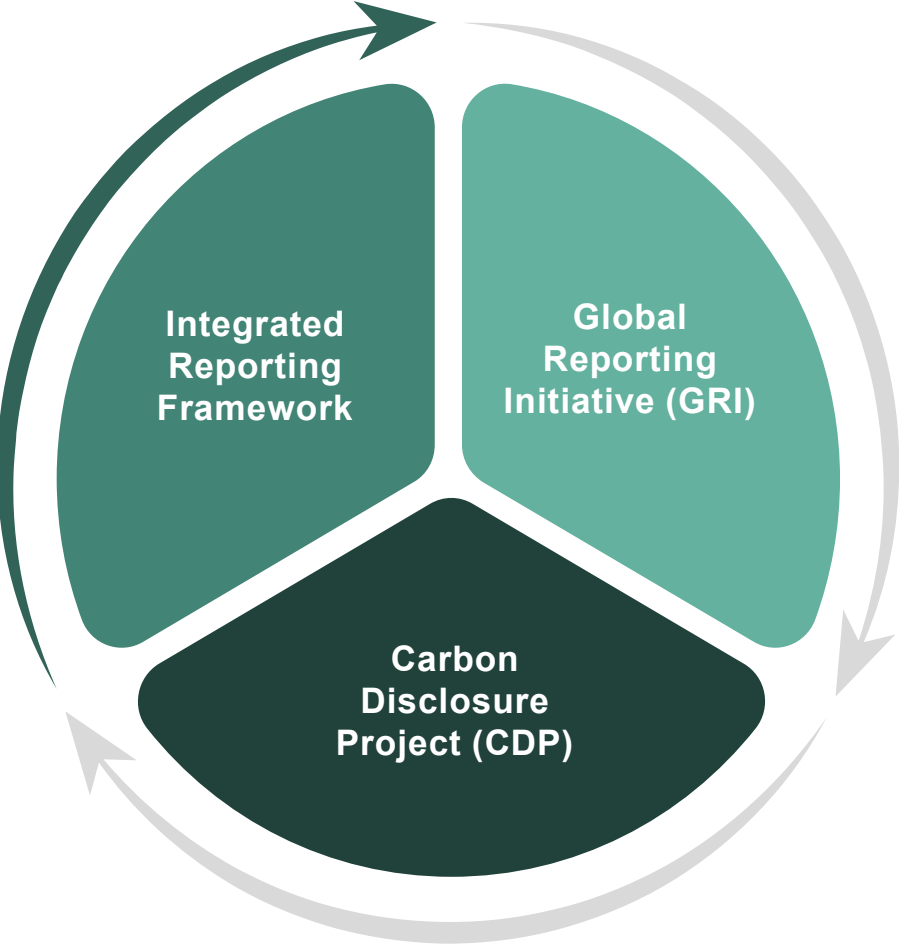

Principle	Key disclosures
<p>Principle 6: Businesses should respect and make efforts to protect and restore the environment.</p>	<p>Disclosures- wrt water withdrawal/discharged</p> <p>Disclosure- Mechanism for zero liquid discharge</p> <p>Details of air emissions and greenhouse gas emissions</p> <p>Description of waste management practices</p> <p>If the entity has operations around ecologically sensitive areas</p> <p>Environmental impact assessments of projects undertaken by the entity</p>
<p>Principle 7: Businesses, when engaging in influencing public or regulatory policy should do so in a manner that is responsible and transparent</p>	<p>Trade and industry chambers/associations membership</p> <p>Corrective action taken issues related to anti-competitive conduct</p>

Section C - Principle-wise performance disclosures – Divided into Essential & Leadership Indicators contd..


Principle	Key disclosures
Principle 8: Businesses should promote inclusive growth and equitable development	Social Impact Assessment (SIA) of projects undertaken by the entity Preferential procurement policy- Purchase from marginalised/vulnerable suppliers
Principle 9: Businesses should engage with and provide value to their customers in a responsible manner	No. of consumer complaints received w.r.t. data privacy, advertising, cyber security and unfair trade practices Framework/policy on cyber security and risks related to data privacy

Commonly heard other Reporting Frameworks


Commonly heard Sustainability Reporting Standards

- **Themes:** General
- **Number of participants:** 2500+
- **Best for:** Any Type of Organization
- **Stakeholder audience:** All



- **Themes:** General
- **Number of participants:** 10,000+
- **Best for:** Any Type of Organization
- **Stakeholder audience:** All



- **Themes:** Climate, Supply Chain, Forest, Water
- **Number of participants:** 13,000+
- **Best for:** Medium-to-Large Companies
- **Stakeholder audience:** Investors, Supply Chain


Commonly heard Sustainability Reporting Standards




- **Themes:** ESG & Climate Financial Risk
- **Number of participants:** 3,800+
- **Best for:** Large Companies
- **Stakeholder audience:** Investors



- **Themes:** ESG Financial Risk
- **Number of participants:** 2800+
- **Best for:** Large Companies
- **Stakeholder audience:** Investors



- **Themes:** General Sustainability Accounting, Risks & Opportunities
- **Number of participants:** TBD
- **Best for:** Medium-to-Large Companies
- **Stakeholder audience:** Investors, CFOs and Finance

• Proposed to be effective for annual reporting periods beginning on or after 1 Jan 2024.

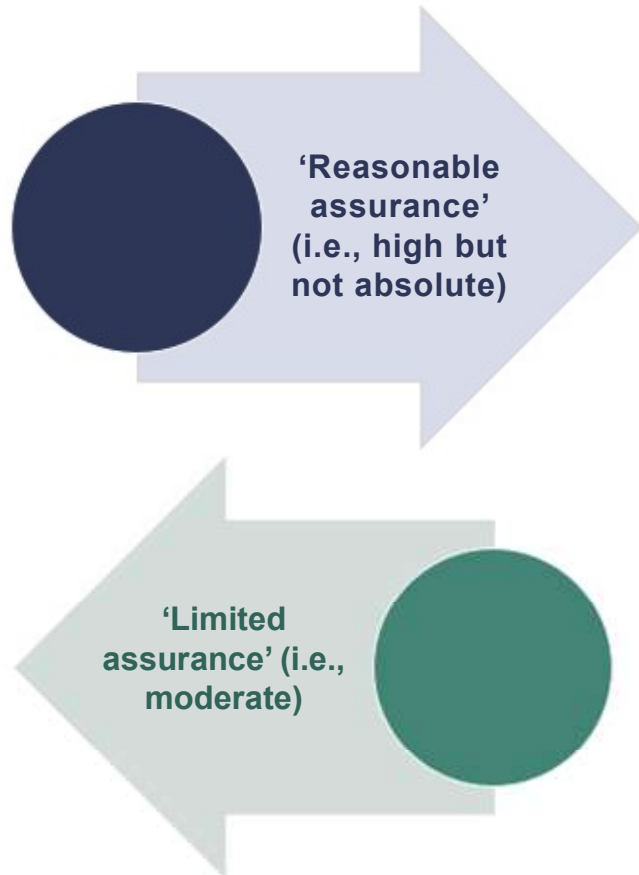
Industry Practices

S.No.	Name	FY	(BRR/ BRSR)	Other International Frameworks				
1	HDFC Bank Limited	2021-22	BRSR	GRI	IR	TCFD		
2	JSW Energy Limited	2021-22	BRSR	GRI	IR	Carbon Disclosure Project (CDP)	Dow Jones Sustainability Index	
3	Tata Consultancy Services Limited	2021-22	BRSR	GRI	IR	PAS 2060		
4	Infosys Limited	2021-22	BRSR	GRI	IR	SASB		
5	Hindustan Unilever Limited	2021-22	BRR		IR			
6	Tata Steel Limited	2021-22	BRR	GRI	IR			
7	Havells India Limited	2021-22	BRSR					
8	Minda Corporation Limited	2021-22	BRR					
9	MindTree Limited	2020-21	BRR		IR	United Nation Global Compact Principle		
10	Cipla Limited	2020-21	BRR	GRI	IR	TCFD		
11	Eicher Motors Limited	2020-21	BRR	GRI	IR	SASB		
12	Reliance Industries Ltd	2020-21	BRR	GRI	IR	TCFD	World Economic Forum Integrated Business council	SASB

Assurance Aspect

Level of assurance offered by assurance providers

Types of Assurance reports:



Types of Assurance Standards

Assurance Engagements Other than Audits or Reviews of Historical Financial Information – ISAE3000*

It is a standard for any assurance engagement focusing on **procedures, terms of engagement and engagement performance**.

Accountability 1000 Assurance Standard (AA1000AS)

AA1000AS is designed by **sustainability professionals** to focus on the **quality of an organisation's reporting and performance**, with emphasis on **materiality, impact, stakeholders and strategy**.

** Recently, the ICAI has released the Standard on Sustainability Assurance Engagements (SSAE) 3000*

ESG Rating- A new credibility tool

ESG Rating Agencies

International ESG Rating Agencies

- Sustainalytics ESG Risk Ratings
- MSCI ESG Ratings
- Bloomberg ESG Disclosures Scores
- FTSE Russell's ESG Ratings
- Institutional Shareholder Services Ratings and Rankings
- S&P Global ESG Scores
- CDP Climate, Water and Forest Scores
- Moody's ESG Solutions Group
- Refinitiv ESG company scores
- Fitch Ratings
- RepRisk ESG Rating (RRR)
- Thomson Reuters ESG Score

Indian ESG Rating Agencies

- CRISILS Rating limited
- ESGRisk.ai
- Stakeholders Empowerment Services
- S&P ESG India Index

Need for regulation of ESG ratings



Ambiguity about the products

- **Lack of clear product terms**, definitions, disclosure requirements in broad ESG ratings and other related products.



Inconsistency & lack of transparency

- **Risks around transparency**, verifiability, interpretability of ratings due to absence of regulatory framework



Unregulated market

- **Risk of conflict of interests** as ERPs may provide services other than in ESG space such as ESG advisory services.



Lack of local ERPs

- ERPs are in **nascent stage** world-over and so as in India

Overview of SEBI's Consultation Paper on ESG Rating Providers



Introduction of BRSR reporting has increased **investor's demand** on evaluation and **ESG rating** by ESG ratings providers (**ERPs**).

SEBI had issued a **proposed regulatory framework** to regulate ERP in **Jan 2022**.



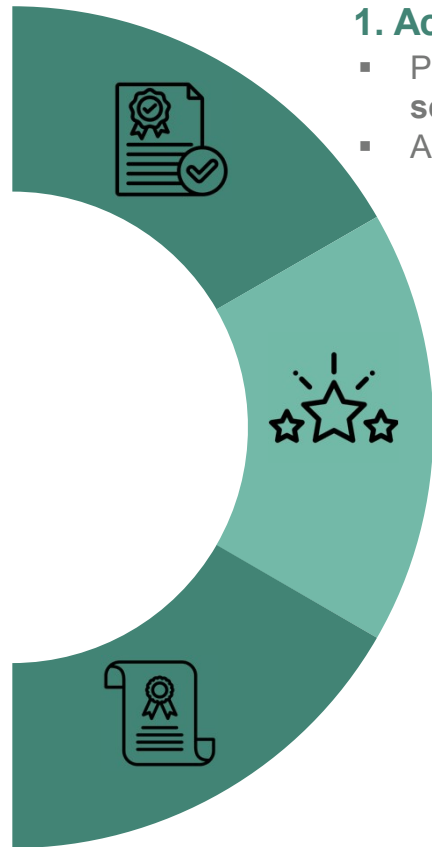
It proposes to **accredit ERPs** for assigning ESG ratings to listed entities and listed securities.

- SEBI has issued a further **Consultation Paper** to **streamline 3 areas** i.e., **ESG Ratings, ESG Disclosures, and ESG Investing**



- ERPs to **factor** in the **domestic context** while assigning ESG Ratings (**list of 15 ESG parameters notified**).
- **BRSR Core** proposed for **reasonable assurance** comprising of **select KPIs under E, S and G**
- **BRSR to be updated** to incorporate KPIs proposed in BRSR Core.
- ERPs **in addition to their other products**, shall also provide a **Core ESG rating**.

Proposed Framework by SEBI- A new credibility tool



1. Accreditation

- Proposed **accreditation of ERPs** (with eligibility requirements) for assigning ESG rating to **listed entities and securities**.
- A listed entity desirous of using 3rd party ESG ratings, to use **only SEBI accredited ERPs**

2. Classification of ESG rating products

- For ensure clear and consistent use, SEBI to offer one of the following **products**:
 - **Impact rating**- Assessment of the positive and negative impact of Co's on the environment and society.
 - **Risk rating** related product –Assessment of Co's resilience to ESG related risk
 - **Other product**- appropriately labelled such as ESG fund ratings, Carbon risk ratings.

3. Standardization

- Application of **ESG rating scale consistently** with disclosure on ERPs website.
- To ensure **no confusion** between ESG rating and other offerings.

Proposed Framework by SEBI- A new credibility tool

4. Transparency

- ERPs to define the **individual component of ESG including KPIs**.
- ERPs to **disclose** the type of ESG rating **products** and its rating **methodology**.

5. ESG rating process

- ERP shall follow a proper **rating process** and ensure **consistency** in application of its methodology
- ERP shall formulate an **Operations Manual**, covering operating guidelines for the ESG rating process

5. Governance measures

- ERPs to create **governance measure** to identify and mitigate **conflict of interest**.

6. Subscriber 'pay' model

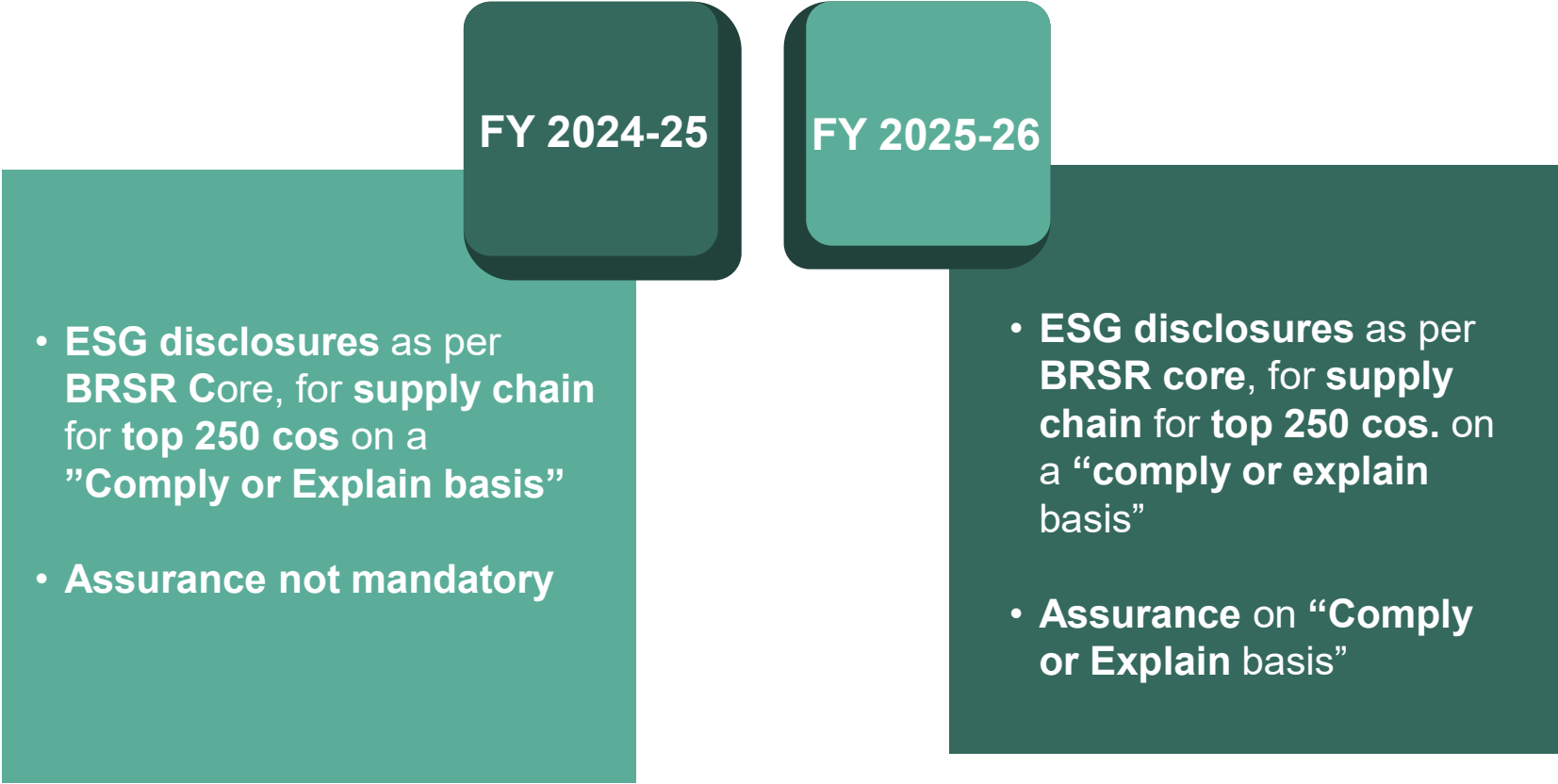
- Recommends a '**subscriber pay**' model as against the existing '**issuer pay**' model- obtain the rationale behind the ESG rating given to a company



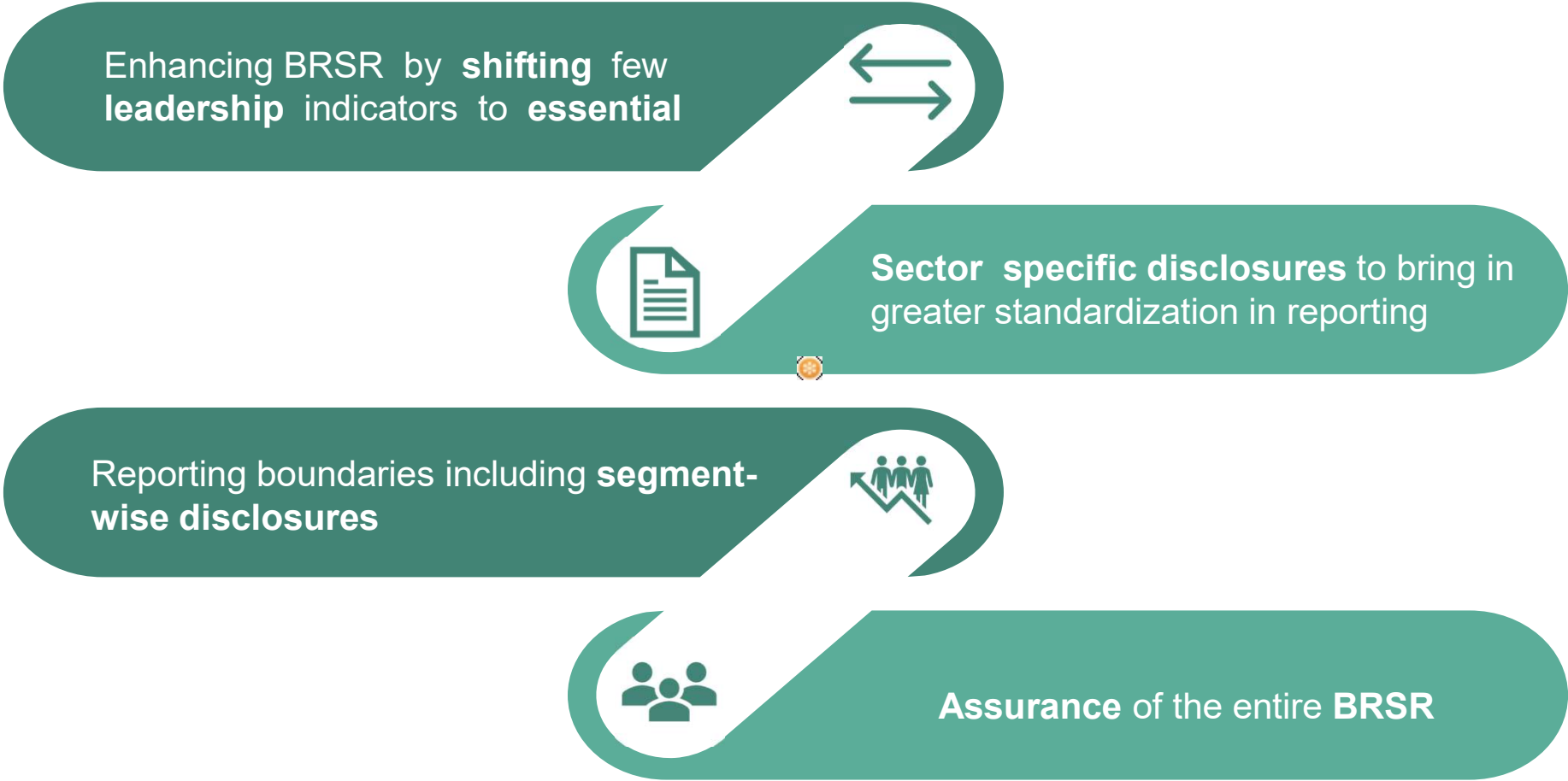
SEBI's Consultation Paper- BRSR Core Reasonable Assurance

FY 2022-23
Assurance-No Mandatory requirement
FY 2023-24
Mandatory for top 250 cos.
FY 2024-25
Mandatory for top 500 cos.
FY 2025-26
Mandatory for top 1000 cos.

SEBI's Consultation Paper- Reporting and Assurance of ESG footprint of the Supply Chain of cos.



Areas deliberated – to be taken up at a later stage



A quick recap



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