

ESG Reporting in India

What is ESG?

- Environmental, Social and Governance (ESG) is a business review of a company's economic, environmental and social impacts, caused by everyday business operations and activities.
- ESG business review is done based on ESG criteria which are broadly classified into three major categories Environment, Social, Governance and into their respective sub-categories.
- ESG criteria and ratings are getting significant traction amongst investor community to conclude on their investment decisions. Many Asset Management Companies, Brokerage firms have also started to offer ESG portfolios for investors to invest.
- ESG criteria-based investment are also referred as sustainable investing, responsible investing, impact investing, or socially responsible investing.
- ESG criteria can greatly help investors avoid companies that might pose a greater financial risk due to their environmental or other practices and may be liable for regulatory sanctions. For instance recent events of BP's 2010 oil spill and Volkswagen's emissions scandal had significant impact on stock prices and resulted huge losses.
- Global Sustainable Investment Alliance (GSIA) 2018 review have stated, "Globally, sustainable investing (ESG-based investments) assets in the five major markets stood at \$30.7 trillion at the start of 2018, a 34 percent increase in two years."

ESG Criteria		
Environmental	Social	Governance
<ul style="list-style-type: none"> - Energy usage - Carbon footprint - Climate change - Waste management - Pollution monitoring - Natural resource conservation - Contaminated property - Hazardous waste - Toxic emissions - Compliance with government environmental regulations? 	<ul style="list-style-type: none"> - Employee welfare - Vendor relationships - Local social welfare programs - Healthcare initiative - Welfare initiatives - Gender equality - Race equality - Religion equality - Education initiative - Clean environment initiatives - Human rights monitoring 	<ul style="list-style-type: none"> - Transparent accounting methods - Investor relationships - Conflict of interest in Board decisions - Business ethics - Opportunity of being heard - Political influence - Legal practices - Whistleblower policy

Global ESG frameworks

ESG frameworks provide logic to analyse various ESG sub-categories, give them weights based on their relevance and importance to eventually determine a percentile of ESG compliance for an entity. This percentile is also used to determine ESG rating for the concerned entity.

• **The Global Reporting Initiative (GRI)**

The GRI is most widely used framework. The framework was established in 1997 however was recently updated apart from environmental practice to include human rights practices, governance and society responsibilities.

• **United Nations Sustainable Development Goals (SDGs)**

With an aim to achieve Sustainable development by 2030, united nations member states established SDG in 2015. There are broader level sustainable goals provided within the framework at country and society level but may have less impact on the industry level indicators.

• **Task Force on Climate-related Financial Disclosures (TCFD)**

G20 Financial Stability Board established TCFD to develop a framework that will enable entities to assess climate-risk and take necessary action to counter. TCFD aims to establish transparent ESG metrics to make world economies better prepare for climate change.

• **The Sustainability Accounting Standards Board (SASB)**

SASB has published ESG standards in 2018 explaining underlying financial metrics and their implementation. SASB ESG framework is best suited to analyse financial performance based on the ESG practices followed by an entity.

• **Morgan Stanley Capital International (MSCI)**

A privately created ESG framework by Morgan Stanley specifically to identify ESG risk in the investment decisions taken by the firm. ESG risks are determined through a scoring system covering data points across industry sectors and rating range from CCC (laggard) to AAA (leader).

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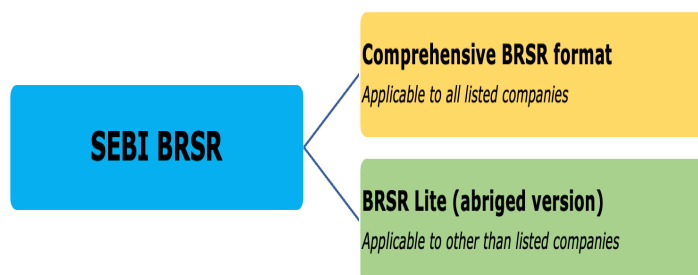
ESG in India

- ESG reporting was limited in a way through BRR reporting and CSR (Corporate social responsibility) reporting.
- Business Responsibility Reporting (“BRR”) is a report (part of annual report) submitted to Indian stock exchanges by top 1000 listed entities by market capitalisation. Non-submission of BRR is considered as a violation of Clause 55 of Equity Listing Agreement.
- BRR reporting philosophy was to make the listed company accountable towards stakeholders and also at the same time to be environmentally sustainable.
- In May 2020, Committee on Business Responsibility Reporting developed and recommended Business Responsibility and Sustainability Report (BRSR) be integrated with the MCA21 portal.
- SEBI (under guidance of MCA) in March 2021 made BRSR reporting applicable to the top 1000 listed entities (by market capitalisation).
- To start with, BRSR reporting would be on a voluntary basis for FY 2021–22 and will be made mandatory from FY 2022–23. Going forward, the applicability is proposed to be extended to all companies and even LLPs in a span of 5 years starting from FY 2021-22.

The BRSR Framework

The *BRSR framework* consist of two separate formats.

- **Comprehensive BRSR**
Applicable to top 1000 listed entities in India and may be extended to other listed entities based on threshold.
- **BRSR Lite**
Applicable to non-listed entities which has simple structure to encourage more companies to begin sustainability reporting. *BRSR Lite* is voluntary for adoption by non-listed entities.



ESG Reporting and Data Standards

- In 2020, OECD released its report on Sustainable and Resilient finance which states that over \$30 trillion is attributable to ESG investing in recent years. Also, more than twenty-five percent of publicly listed companies around the world are now ESG measured and rated.
- Amidst the rush for ESG investing, Investors and regulators need better data on entities’ ESG performance to strategize ESG-based regulations and compliances.
- World-over, many regulators are yet to identify preferred data standard for reporting of ESG data. Similarly in India where MCA/SEBI made ESG reporting as part of MCA21 portal but did not specify if the data will be XBRL-ised.
- IASB has already initiated a project to establish IFRS-based ESG framework which will be made part of IFRS XBRL taxonomy, it’s inevitable that an equivalent update in IND-AS and in MCA XBRL Taxonomy will occur.
- It is ideal for SEBI/MCA to establish a data standard for ESG data reporting at the inception of ESG evolution in India. Data Standards like XBRL, SDMX have garnered immense importance in business reporting in recent years mainly due the fact that they are open source, have globally accepted data structures and have abundant software, human resources availability.
- In India, even with modern technologies in place ESG Data too is not devoid of;
 - **Lack of accounting standards** – in absence, the measure for ESG metrics will be interpretational-based.
 - **Lack of regulations** – many of required ESG data are still not recorded in business books to derive quality metrics due to lack of ESG regulations.
 - **Lack of technology** – to record, store, report, analyse, publish, all are use cases for necessary software, hardware upgradation required at entity and at regulatory levels.

In today’s time when climate crisis is felt by every individual on planet Earth, it’s of crucial importance to have a robust ESG-based book-keeping, publication, regulation, reporting, rating framework in place for every country, especially in India which is eying to be an economic super power this decade.

ESG Reporting in India

BRSR | Summary of Disclosures and Principles

Section A and B focusses on "quantitative data" while Section C focusses on "qualitative data"

Sections	Disclosures
Section A: General information	Top 3 product details
	Plant/ office locations
	Employee/ workmen details
	Financials and Ownership
Section B: Policies	Policy and Management processes
	Governance, leadership and oversight
	Stakeholder engagement
	Communication
Section C (Principle # 1)	Complaints on bribery/ corruption
	Disclosure of interest by directors
	Training / awareness programs on principles
	Meeting with shareholders on responsible business conduct and sustainability
	Transparency and disclosure details
Section C (Principle # 2)	R&D and Capital expenditure
	Input materials and its sourcing
	Usage of recycled / reused inputs
Section C (Principle # 3)	Measures for well-being of employee and workmen
	Payment of minimum wages and training to staff
	Details of unions and assessment of child labour, sexual harassment and likewise
Section C (Principle # 4)	Protection of stakeholders interest
Section C (Principle # 5)	Protection of human rights (employees/ workmen/ differently abled)
	Details of remuneration
	Number of complaints
Section C (Principle # 6)	Air and liquid emission details
	Solid waste generation and management
Section C (Principle # 7)	Affiliation with associations/ industry chambers
	Details of energy and water consumption
Section C (Principle # 8)	CSR beneficiaries
Section C (Principle # 9)	Details of products with focus on value to consumers

Source: - http://mca.gov.in/Ministry/pdf/BRR_11082020.pdf