Changing Landscape of ESG in India

Look to the stars let hope burn in your eyes…

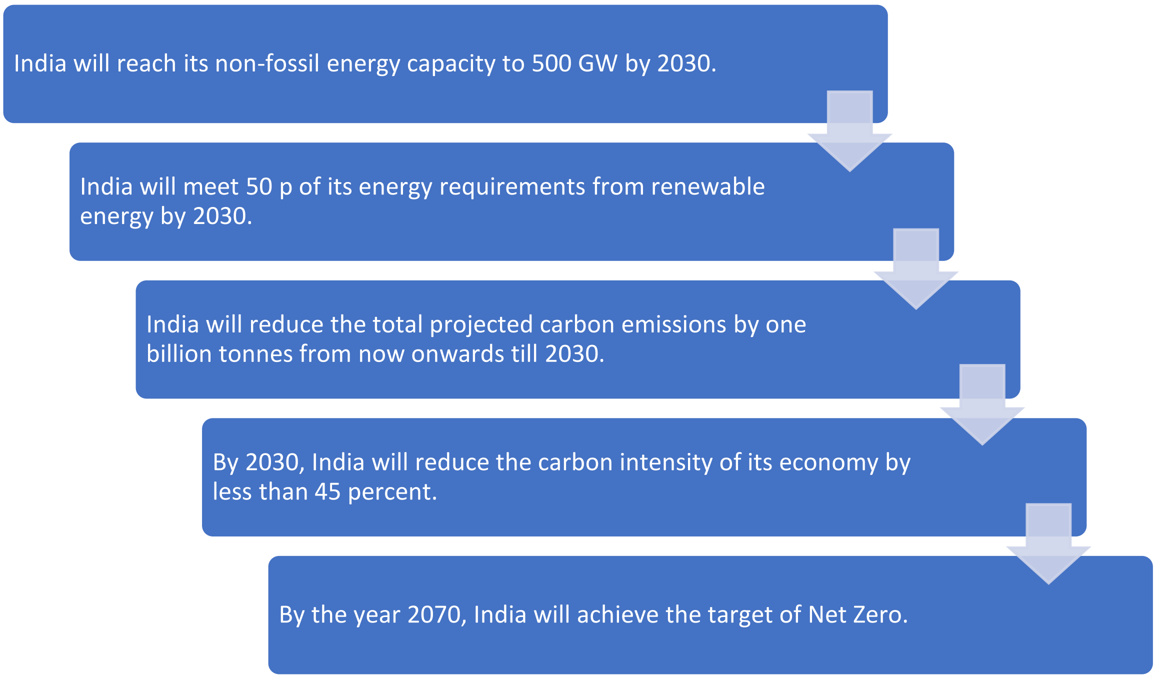
Today, Climate change discussions are a central focus for governments, environmentalists, regulatory bodies, scientists across the globe as climate change is a global emergency that goes beyond national borders. The need for action on climate change has never been greater, and there is a growing recognition that addressing climate change requires a collective effort from all sectors of the society.

The Paris Agreement marked a significant milestone in the global effort to combat climate change and adapt to its impacts, as it achieved a historic unity among all nations in a binding agreement. This agreement played a pivotal role in addressing climate change by establishing ambitious objectives, promoting broad participation, enhancing transparency, mobilizing financial resources, and fostering international collaboration.

The agreement was adopted by 196 parties at the UN Climate Change Conference (COP21) in Paris, France on 12 December 2015.. India ratified the agreement on 2nd October 2016,and its commitments are called the National Determined Contributions (NDCs).

This was followed by another key UN Climate Change Conference in Glasgow (COP26) which bought together 120 world leaders to agree on how to step up global action and solve climate crisis. This was a key moment for India as Prime Minister Shri Narendra Modi made the pledge, to achieve net zero emissions by 2070 for India.

The Prime Minister of India presented the ***five nectar elements, Panchamrit,*** which will be an unprecedented contribution of India to climate action.



The United Nations General Assembly adopted the 2030 Agenda for Sustainable Development and 17 Sustainable Development Goals (SDGs) as a universal and transformative development strategy. The 2030 Agenda commits to the global community to “achieve sustainable development in its three dimensions— economic, social and environmental—in a balanced and integrated manner”.

Building a sustainable and robust economy requires a shift in corporate business models, a reoriented and mobilized financial system under a regulatory system that promotes transparency and incentivizes action. Recognising the need of the hour, numerous developments have taken place in the Indian Regulatory scenario through significant policy changes to keep in line with global sustainability trends.

Key Regulatory Changes in Sustainability Reporting

It's interesting to see how the ESG landscape in India is evolving at a rapid pace with the increasing awareness of environment, social, and governance aspects among Indian companies, regulators, and investors. The government and regulatory bodies have introduced various guidelines and regulations over time to address and strengthen sustainability reporting on each aspect of ESG.

The Ministry of Corporate Affairs released the Voluntary Guidelines on Corporate Social Responsibility in 2009, which initiated the disclosures on CSR Projects and social aspect of ESG. Subsequently, in 2011, the Ministry released National Voluntary Guidelines on Social, Environmental & Economic Responsibilities of Business to strengthen the governance structure of corporates.

A significant step was taken in 2012 when SEBI mandated the Business Responsibility Report (BRR) for the top 100 listed companies as per The Listing Agreement. The BRR provides a comprehensive framework for companies to report on their ESG performance and was aimed at enhancing transparency and accountability.

In 2015, SEBI further extended the mandate of BRR to the top 500 companies, thereby bringing more companies under its ambit. This move is expected to drive ESG integration and promote sustainable practices among Indian corporates.

Business sustainability guidelines in India have been continuously evolving to meet the dynamic business environment in the country. All the above initiatives were important stepping stones towards strengthening of sustainability reporting. These two key Initiatives were important upgrades in building a strong foundation for sustainability reporting for corporates in India.

NVG GUIDELINES UPGRADED TO NGBRC IN 2019

Revisions were made in the NVG Guidelines to make them more comprehensive and of global standards into National Guidelines on Responsible Business Conduct (NGRBC) These now covered the key 9 principles for responsible business conduct and were inspired from UN Guiding Principles for Business and Human Rights (UNGP) and UN Sustainable Development Goals (SDG).

BRR REVISED TO BRSR IN 2021

- In the backdrop of global developments and the increasing focus on sustainability investing, the existing BRR was radically enhanced to Business Responsibility and Sustainability Report BRSR for ESG-related reporting in May 2021. The BRSR is a notable departure from the existing BRR and set a significant step towards bringing sustainability reporting at par with financial reporting. Further, companies will be able to better demonstrate their sustainability objectives, position and performance resulting into long term value creation.

Overall, the evolution of the ESG landscape in India is a positive development, and it is heartening to see the efforts being made by various stakeholders towards promoting sustainable and responsible business practices in the country.

Business Responsibility and Sustainability Reporting (BRSR) – represents a new era of sustainability reporting in India.

As per Gazette notification no. SEBI/LAD-NRO/GN/2021/22 dated May 05, 2021, SEBI has introduced new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report (BRSR). BRSR has been benchmarked and adopts the United Nations Sustainable Development Goals (UN-SDGs) and other global ESG reporting frameworks to make the reporting more comprehensive and effective for business and investor community.

The National Guidelines on Responsible Business Conduct (NGRBC) suggest two versions of BRSR reporting – "Comprehensive" and "Lite". The Comprehensive Version of reporting is for listed organizations, while the Lite Version is for unlisted companies.

The Reporting under BRSR comprises of three sections:

General Disclosures (Mandatory)
- Focuses on the general disclosures at the company level like details of entity, products & services, operational and employee details.

Management and Process Disclosures (Mandatory)
- Focuses on policy and governance level questions to demonstrate the structure, policies and processes put in place towards adopting the NGRBC Principles and Core Elements

Principle-wise Disclosures
- Integrating Principles and Core Elements with key processes and decisions
- Essential Indicators (Mandatory)
- Leadership Indicators (Voluntary)

The BRSR is intended towards having quantitative and standardized disclosures on ESG parameters to enable comparability across companies, sectors and time. Such disclosures will be helpful for investors to make better investment decisions. The BRSR shall also enable companies to engage more meaningfully with their stakeholders, by encouraging them to look beyond financials and towards social and environmental impacts.

SEBI Board Meeting Announcements on Balanced Framework of ESG

The Securities and Exchange Board of India (SEBI) approved the Balanced framework for ESG (Environmental, Social and Governance) disclosures, ratings and investing on March 29, 2023.

On ESG Disclosures, the market regulator has mandated introduction of BRSR (Business Responsibility and Sustainability Report) Core to enhance the reliability of ESG disclosures. The BRSR will contain a limited set of Key Performance Indicators (KPIs), for which listed entities will be required to obtain "reasonable assurance", a SEBI release said.

"A glide path is prescribed for applicability of BRSR Core, beginning with the top 150 listed entities (by market capitalization) from FY 2023. A brief snapshot is shared in the table below:

KEY ESG DECISIONS	BRSR CORE	ESG Ratings	ESG Disclosure for Value Chain Partners	ESG Investing
KEY OBJECTIVE	The BRSR Core contains a limited set of Key Performance Indicators	ESG Rating parameters as per India/Emerging Market Parameters	ESG Disclosures & Assurance will be introduced for Value Chain of listed entities with certain thresholds	To address risk of mis-selling and greenwashing and promote ESG Investing
APPLICABILITY	Applicable to top 150 listed entities by market cap from FY 2023-24, which will be extended to 1000 entities by fy 2026-27	ERP will offer separate category of ESG Ratings called "Core ESG Ratings"	Applicable to top 250 listed entities as per market cap from FY 2024-25 and FY 25-26.	Mandating ESG schemes to invest 65% of Assets under management (AUM) in listed entities where BRSR Core is Assured
ASSURANCE	Reasonable Assurance	Based on the assured parameters under BRSR Core	On a comply or explain basis	Mandatory third party Assurance and certification by BOD on compliance

India's path towards net zero in 2070…continues

India is making a deliberate and conscious effort towards this goal, and it recognizes the importance of addressing climate change and achieving sustainability. It is clear that India is fully committed to achieve Net Zero on carbon emissions by 2070 and a lot of efforts have been initiated in that direction. There are still many challenges and key decisions which are being worked upon to define a clear Road Map towards achieving Indian SDG Goals and Targets.

While there has been significant momentum in regulatory, professional, corporate, and social organizations towards sustainability reporting, there is a lot more effort that will continue to go in providing more clarity, guidance and standardization in various aspects of ESG reporting. This is important to prevent the risk of Greenwashing and ensure transparency in climate disclosures.

As shared by The Prime Minister Shri Narendra Modiji at COP 21
If our thinking is right, we will form a true global partnership of capabilities and needs that leads us to a low carbon age…

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