ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) REPORTING OF THE LISTED CORPORATES IN INDIA

Dr. Somnath Ghosh*

The term Corporate Sustainability (CS) is much deliberated at present among the corporates, academics, social activists, governments and international intergovernmental organisations, like the United Nations (UN), Organization for Economic Co-operation and Development (OECD), etc.

CS refers to the attainment of long term growth and profitability, by a corporate, through positive business practices, in the following three areas:

1. **Environment:** Negative impact of the business operations should be minimum on the environment, e.g. carbon emission should be minimised to the extent possible, efforts should be made for conservation of water and biodiversity, safe and recyclable products should be produced and there should be proper waste management.

2. **Society:** Proper care should be taken by a corporate entity for its people, both within and outside, like its employees, customers and local community. Corporates should also have respect and commitment for promotion of human rights.

3. **Economic Performance:** Corporates have to generate surplus, otherwise in the long run, survival will be at stake. Sustainable business practices should be the objectives of the corporates, otherwise promotion of long term profitability will not be possible. Only a corporate which is profitable in the long run can make positive contributions towards the environment and society.

*Practicing Chartered Accountant & Guest Faculty Member of the Department of Commerce, calcutta University, casghosh59@gmail.com

However, a corporate should not compromise with the following to achieve profitability:

- Healthy corporate governance.
- Ethical business practices.
- Transparent business activities.
- Compliance with the laws of the countries.
- Respectability and responsiveness towards the interests of all the stakeholders.
- Promotion of inclusive growth and equitable development.
- Utilization of the scarce resources of the society in the best possible manner.
- Investment towards sustainable business practices.

All the above three elements of sustainable business practices are equally important; no one should overshadow the others.

Objectives of CS are to ensure, long term values for the stakeholders of a corporate without compromising the long term interests of the environment and society, and also at the same time, the economic interests of itself. CS is concerned with the business practices which will ensure present profitability of the corporates without compromising the ability of the future generations to fulfil their needs. The objectives of CS are to ensure a healthy planet, safe and secure societies, and prosperous economies for the future generations through long term initiatives.

Corporate Social Responsibility and Corporate Sustainability

On the other hand, Corporate Social Responsibility (CSR) may be defined as the accountability of a corporate towards its stakeholders and the public at large. CSR denotes accountability of a corporate to the society, and is a broad multidimensional concept. CSR does not focus only on sustainability. CSR includes CS. Hence, CSR is a broader concept than CS.

So, both CSR and CS focus on the positive contributions of a corporate towards society and environment. The two terms CSR and CS are closely interconnected, yet they are not the same. However, very often these two terms are confused with one another and used interchangeably, though these two terms are not similar.

Environmental, Social and Governance (ESG) Norms

Environmental, Social and Governance (ESG) norms are a set of standards for the business practices of a corporate. Presently, the socially conscious investors evaluate the performances of the proposed investee corporates against the ESG standards to take their economic decisions. ESG norms assist investors in identifying corporates with values, which match with their desired values.

ESG is a broader term, and CS comes under ESG. CS emphasizes compliance with ESG norms.Each element of the ESG norms includes the following:

- **Environmental Norms:** Environmental norms include the qualities of performances of a corporate on, managing environmental risks, energy usage, water management, waste management, pollution control, conserving natural resources, biodiversity, and compliance with government environmental rules.

- **Social Norms:** Social norms include the qualities of performances of a corporate in, managing relationship with the employees, health and safety measures undertaken for the employees, satisfaction of the customers for safe and eco friendly products, inclusion of value evaluation criterion for selecting the suppliers and aligning such values with the values of the corporate, and welfare activities for the local community.

- **Governance Norms:** Governance norms include the qualities of performances of a corporate in compliance with, laws of the land, ethical business practices, transparent accounting practices, fair audit practices, adequate internal controls, avoidance of conflicts of interest in choosing board members and respect for the rights of the shareholders.

Now, another much deliberated term in this respect, 'Sustainable Development' may also be looked into, as the principal purpose of complying with 'ESG Norms' is 'Sustainable Development'. So, what is meant by 'Sustainable Development'?

Sustainable Development (SD)

In simple words, 'Sustainable Development' refers to a concept of development, where the quantum of natural resources consumed at present for the purpose of development, should not exceed the capacity of the planet to regenerate adequately, such resources for future supply, to be used by the future generations, to fulfil their needs. Under such a situation, only the indefinite supply of natural resources, for fulfilling the needs of the generations to come, can be ensured.

However, if the opposite happens, i.e. consumption of natural resources for the present development exceeds the capacity of the earth to regenerate consumed natural resources, then the present development will be at the cost of the future generations, and the same cannot be acceptable as sustainable.

The United Nations Development Programme (UNDP) published a report titled, 'Sustainable Development Goals' (SDGs). The UNDP adopted the SDGs in the year, 2015. The SDGs comprise of 17 goals to be achieved. The UNDP vows to achieve those 17 SDGs by the year 2030.

Present Scenario of Sustainability Reporting

Now, we may look into the present panorama of the 'Sustainability Reporting' of the corporates. The corporates at present publish annual sustainability reports mostly voluntarily. However, till date, there are no internationally accepted measurement and disclosure standards, on the bases of which sustainability reports can be prepared by the corporates. In the absence of such internationally accepted standards, corporates are preparing their sustainability reports, following different measurement and disclosure frameworks, according to their choice. Resultantly, information published by the corporates through those sustainability reports often are devoid of desired quality, consistency, and arealso not globally comparable. Resultantly, investors are also unable to assess the sustainability risks of the corporates from those sustainability reports. Under such a situation, economic decisions of the investors on the bases of such corporate sustainability reports are bound to be sub-optimal.

IFRS Foundation, the investor focused international organization responsible for setting IFRSStandards is competent enough to take initiative in this regard. IFRS Foundation can set internationally accepted sustainability reporting standards, and the sustainability reports prepared by the corporates on the bases of those standards will be consistent, transparent, and comparable around the world.

Initiatives of IFRS Foundation

Trustees of the IFRS Foundation, on October 21, 2021, revised its Constitution with the aim to accommodate the formation of a new standard setting board, responsible for developing a set of sustainability disclosure standards within its structure, to address the demands of the socially conscious international investors.

On November 03, 2021, the Trustees of the IFRS Foundation announced the formation of a new standard setting board, viz. ‘International Sustainability Standards Board’ (ISSB). The objective of forming the ISSB is to deliver a set of comprehensive international sustainability related disclosure standards. Such standards will provide investors and other capital market participants with the following information about the corporates to assist them in making informed economic decisions:

- Sustainability related risks.
- Sustainability related opportunities.

The ‘Objectives’ section of the Constitution of the IFRS Foundation provides that the responsibility of the ISSB will be to develop a set of sustainability disclosure standards, referred to as ‘IFRS Sustainability Disclosure Standards’.

So, at present the two standard setting bodies of the IFRS Foundation are the following:

- International Accounting Standards Board (IASB), for developing ‘IFRS Accounting Standards’.

- International Sustainability Standards Board (ISSB), for developing 'IFRS Sustainability Disclosure Standards'.

The 'IFRS Accounting Standards' and 'IFRS Sustainability Disclosure Standards' are collectively referred to as, 'IFRS Standards'.

Issuance of Global Sustainability Disclosure Standards by the IFRS Foundation

On Monday, June 26, 2023 the ISSB has issued the following two 'IFRS SustainabilityDisclosure Standards':

Serial No.	International Standard No.	Title
1.	IFRS S1	General Requirements for Disclosure of Sustainability-related Financial Information
2.	IFRS S2	Climate-related Disclosures

We can expect that this will usher in a new era in international corporate reporting.

Indian Perspective of Sustainability Reporting

CSR Under the Companies Act, 2013, of India

The Section 135(5) read with the Section 135(1) of the Companies Act, 2013, mandated CSRactivities with respect to the following classes of companies:

- Companies having net worth of Rupees Five Hundred Crore or more; or
- Companies having turnover of Rupees One Thousand Crore or more; or
- Companies having net profit of Rupees Five Crore or more during the immediately preceding financial year.

Any company, covered under any one of the above mentioned three criteria, has to spend inevery financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years, or where the company has not completed the period of three financial years since its incorporation, during such immediately preceding financial years, in pursuance of its corporate social responsibility policy.

CSR Reporting Under the Companies Act, 2013Rules and Schedule

The Companies (Corporate Social Responsibility Policy) Rules, 2014, has been promulgated to regulate the CSR policies, activities, expenditure and reporting of the companies. An 'ANNEXURE' has been provided in the said Rule, prescribing a detailed format for the annualreport on the CSR activities which are to be included in the report of the board of directors of a company.

The Companies (Corporate Social Responsibility Policy) Rules, 2014, is applicable to companies to which Section 135(1) of the Companies Act, 2013, is applicable.

Rule 9 of the Companies (Accounts) Rules, 2014, has prescribed that the disclosure of contents of the corporate social responsibility policy in the report of the board of directors and on the website, if any, of the company shall be as per the 'ANNEXURE' attached to the Companies (Corporate Social Responsibility Policy) Rules, 2014.

'Schedule VII' of the Companies Act, 2013, has prescribed the activities which may be included by the companies in their corporate social responsibility policies.

Business Responsibility Reporting Under the Securities and Exchange Board of India (SEBI) Regulation

Under Clauses 34(1)(a) and 34(2)(f) of the 'Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015', it has been made mandatory for the top one thousand listed companies (based on the market capitalisation to be calculated as on March 31 of every financial year) to publish annual reports containing 'Business Responsibility Reports' (BRR) describing the initiatives taken by them from the 'Environmental, Social and Governance' (ESG) perspectives. Such annual reports have to be submitted to the stock exchanges, and also have to be published on the websites of the companies. In the case of other listed companies, publishing of the annual reports containing 'Business Responsibility Reports' is optional.

Business Responsibility and Sustainability Reporting Under the SEBI Regulation

SEBI has amended Clause 34(2)(f) of the 'Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015' vide Gazette Notification dated May 05, 2021 and vide Circular dated May 10, 2021 replaced 'Business Responsibility Report' (BRR) by 'Business Responsibility and Sustainability Report' (BRSR) to report the performances of a corporate on ESG parameters, because of increased focus of the investors and other stakeholders seeking businesses to be responsible and sustainable towards the environment and society. This 'Business Responsibility and Sustainability Reporting' has been made mandatory by SEBI for the top 1000 listed companies (based on the market capitalisation to be calculated as on March 31 of every financial year) with effect from the financial year 2022-2023.

Again, based on the recommendations of the ESG Advisory Committee and pursuant to public consultation, vide Circular dated July 12, 2023 SEBI has revised the existing BRSR format and decided to introduce 'BRSR Core' and mandated disclosure and assurance (i.e. audit) by specified listed companies as per the updated format. SEBI has further decided to introduce disclosure and assurance (i.e. audit) as per the 'BRSR Core' for the value chain (both for purchases and sales) of specified listed companies. This 'BRSR Core' is a sub-set of the BRSR and consists of a set of Key Performance Indicators (KPIs)/Metrics under 9 ESG attributes.

The provisions of the 'Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015' has been amended vide Gazette Notification dated June 14, 2023 to implement the aforesaid changes.

The disclosures as per the revised BRSR format including 'BRSR Core' is mandated for top 1000 listed companies (based on the market capitalisation to be calculated as on March 31 of every financial year) as part of their Annual Reports from the financial year 2023-2024. However, the reasonable assurance (i.e. reasonable audit) of the 'BRSR Core' is mandated in the following staggered manner:

Financial Year	Applicability of Reasonable Assurance of BRSR Core to Top Listed Companies (Based on the Market Capitalisation to be Calculated as on March 31 of Every Financial Year)
2023-2024	Top 150 listed companies.
2024-2025	Top 250 listed companies.
2025-2026	Top 500 listed companies.
2026-2027	Top 1000 listed companies.

SEBI has gone a step further, and made mandatory disclosures as per 'BRSR Core' for its value chain by a specified listed company, as part of its Annual Reports. Here, value chain has been referred to as top upstream and downstream partners of a specified listed company, cumulatively comprising 75% of its purchases/sales (by value) respectively.

Specified listed companies must have to report the KPIs in the 'BRSR Core' for their value chain to the extent it is attributable to their businesses with a value chain partner. This reporting may be segregated for upstream and downstream partners or can be reported on an aggregate basis.

The disclosures as per the said 'BRSR Core', i.e. ESG disclosures, for the value chain has been mandated to top 250 listed companies (based on the market capitalisation to be calculated as on March 31 of every financial year) on a comply-or-explain basis from the financial year 2024-2025. The limited assurance (i.e. limited audit) of such ESG disclosures has beenmandated on a comply-or-explain basis from the financial year 2025-2026.

SEBI has also mandated the procedural/disclosure requirements and obligations for the 'ESGRating Providers' vide 'Master Circular for ESG Rating Providers' dated July 12, 2023 and made it applicable from the date of notification of this Master Circular.

'ESG Reporting' and 'ESG Risk Rating & Gradation' of the Listed Companies in India

Now, to have an understanding of the status of 'ESG Reporting' and 'ESG Risk Rating & Gradation' of the listed companies in India, the pattern of 'ESG Reporting' by the top 10 listed companies (by market capitalization on September 18, 2023 in the BSE and NSE Stock Exchanges) and their 'ESG Risk Rating & Gradation' (provided by 'Sustainalytics') are furnished in the Table below:

Sl. No.	Name of the Company	Particulars of ESG Reportingfor the Financial Year 2022-2023	ESG Risk Rating	ESG Risk Grade
01.	Reliance Industries Limited	Published combined 'Business Responsibility & Sustainability Report' (BRSR) and ESG Report.	41.0 On June 24, 2023	Severe Risk
02.	Tata Consultancy Services Limited	Published 'Integrated Annual Report' which contains (a) Corporate Governance Report, (b) Corporate Social Responsibility Report, (c) BRSR and (d) Sustainability Disclosures.	11.4 On August 18, 2023	Low Risk
03.	HDFC Bank Limited	Published 'Integrated Annual Report' which contains (a) Responsible Business Disclosures, (b) Corporate Governance Report and (c) BRSR.	30.6 On May 11, 2023	High Risk
04.	ICICI Bank Limited	Published separately BRSR and ESG Report.	24.0 On September 02, 2023	Medium Risk
05.	Infosys Limited	Published separately 'Integrated Annual Report' which contains (a) Corporate Governance Report and (b) BRSR, and ESG Report.	13.1 On September 02, 2023	Low Risk

06.	Hindustan Unilever Limited	Published separately 'Integrated Annual Report' which contains (a) BRSR and (b) Corporate Governance Report, and ESG Report.	23.0 On September 14, 2023	Medium Risk
07.	ITC Limited	Published separately BRSR and Sustainability Report.	28.0 On April 13, 2023	Medium Risk
08.	State Bank of India	Published separately 'Annual Report' which contains (a) Corporate Governance Report and (b) BRSR, and Sustainability Report.	27.1 On May 19, 2023	Medium Risk
09.	Bharti Airte lLimited	Published 'Integrated Report' which contains (a) BRSR and (b) Report on Corporate Governance.	19.5 On April 13, 2023	Low Risk
10	Bajaj Finance Limited	Published separately 'Annual Report' which contains BRSR, and ESG Report.	18.8 On May 28, 2023	Low Risk

Note 1: The 'ESG Risk Rating' and 'ESG Risk Grade' have been provided by 'Sustainalytics', which is a part of 'Morningstar, Inc.' of 22 Washington Street, Chicago, Illinois 60602, United States of America. 'Morningstar Sustainalytics' provides high-quality, analytical 'Environmental, Social and Governance' (ESG) research, ratings and data to institutional investors and companies. 'Morningstar' and 'Sustainalytics' announced strategic partnershipin the year 2015. Later on, in the year 2017 'Morningstar' acquired 40% ownership stake in 'Sustainalytics'.

Note 2: Scale of 'Sustainalytics' for Determining ESG Risk Grade

Negligible Risk	Low Risk	Medium Risk	High Risk	Severe Risk
0 - 10	10 - 20	20 - 30	30 - 40	40+

Conclusion

Investors at present, specially leading institutional investors and large portfolio holders, are not only concerned with financial performances of their investees, but also with the ESG-driven risks and opportunities of their investee corporates. For this purpose, the investors need adequate ESG related data of their investee corporates, so that they can build up meaningful ESG insights of their targeted investees.

India is moving at the right direction in this regard, as by the time to time amendments of the 'Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015', India has ensured disclosures of ESG related data through BRSR which includes 'BRSR Core', by the specified listed companies, for themselves and also for their upstream and downstream value chain partners (i.e. suppliers and customers). SEBI has also mandated reasonable/limited audit of such 'BRSR Core' disclosures according to a prescribed timeframe.

References

www.ifrs.org

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