

Evolving ESG Regulations in India

The world around us is increasingly beginning to feel the impact created from years of unfriendly environmental and social choices. It is now, more than ever before that we get to hear of the crisis getting closer and closer to home. Topics surrounding sustainability and need for better sustainable practices across the value chain are becoming common conversations in the corporate corridor.

The term ESG is one such, where the comprehensive view of all environmental, societal and governance related parameters are grabbing attention, and duly so. This overarching term brings together various impact-focused categories of businesses to create sustainable pathways for future. In the process, the newly developed business strategy also provides opportunities to create additional economic and social value.

It is not a surprise that our regulators and investors are taking notice of the adoption among the businesses and using these frameworks as a key-criteria to evaluate the future readiness of these firms. It will be sooner than later, when all organisations, irrespective of the size and industry, may have to embed ESG practices for their growth.

In May 2021, the Securities and Exchange Board of India (SEBI) issued a notification introducing a new reporting requirement: The Business Responsibility and Sustainability Report (BRSR). This is the most recent step by Indian governing bodies to ensure companies incorporate socially and environment conscious practices into their organisations. This move will encourage Indian companies to be more responsible in their dealings, and will also support the recent goals outlined by Honorable PM Narendra Modi during his Independence Day speech. The aim to build a country where development is inclusive and which has the next-generation infrastructure, world-class manufacturing, cutting innovations and new-age technology would require the cooperation of all parties involved, and the private sector forms a large proportion of this.

The BRSR is a modification of the existing Business Responsibility Report (BRR) and has been created in response to various emerging global issues such as climate change, sustainability, and social equality. The BRSR is further aligned to the 9 principles of National Guidelines of Responsible Business Conduct (NGRBC). The new report primarily applies to the top 1000 listed companies by market capitalization, with the option to report in FY2021-22 and the mandatory requirement to report from FY2022-23. The report has also been made optional to companies other than the top 1000 which have securities listed on the Small and Medium Enterprises (SME) exchange, who would typically be required to submit the BRR.

The shift in the disclosure clearly suggests the focus and the expectations that is building for the businesses. Some of the following changes in BRSR in comparison to BRR gives a direction to the nature of policies that may come in soon -

- BRSR is more comprehensive than the BRR and constitutes details of the listed entity, products/services, markets served by the entity, details of employees, CSR activities, transparency and disclosure compliances and an overview of the entity's material responsible business conduct issues.

- The document requires details on the Management and process disclosures, including policy and management processes, governance, leadership and oversight.

Many organisations are already publishing sustainability reports in other global formats such as Global Reporting Framework (GRI), Task Force on Climate-related Financial Disclosures (TCFD) and Sustainability Accounting Standards Board (SASB) or others. BRSR does allow the interplay with these existing ESG frameworks and easy replicability and comparability, thereby creating significant investment opportunities for companies participating in the reporting process.

Businesses are taking active measures in creating impactful CSR portfolios and comprehensive business strategies. BRSR will enable better alignment with the United Nations Sustainable Development Goals (SDG's) and help in achieving our Nationally Determined Contributions (NDCs).

In this pursuit, we believe irrespective of the applicability, every business needs to begin this journey to incorporate and adopt ESG practices. Publishing BRSR may very well be a significant step for organisations without existing sustainability reports. Unlike CSR, Sustainability is organisation wide responsibility, and therefore as an immediate next step, companies should focus on –

- Acknowledging the shift towards ESG practices and disclosures
- Develop systemic approach to prioritize the focus areas and build systems and processes for this transformation
- Build capability within the organisation, across teams and functions to align on the common goal
- Respond to the heightened interest of investors, regulators, employees, and consumers towards the efforts made by business on this front
- Given the growing interest of investors in ESG, the proposed BRSR structure provides the opportunity for companies to share comparable, quality ESG disclosures. The current reporting requirement is limited to the top 1000 companies but working towards publishing the BRSR report may also benefit other companies who are beginning this journey.

At Sattva, we understand this urgency that is driving businesses to think beyond profitability, and move towards acting responsibly, building inclusive workspaces, develop resiliency in communities and influence the larger ecosystem to adopt the change. We believe becoming sustainable is no longer a matter of choice since we all are in this together – either we all win, or we all lose.