



Preparatory Note on Business Responsibility and Sustainability Reporting (BRSR)

Researched, analysed and compiled by **Sattva Consulting**

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Executive Summary

The Goal

The BRSR report is mandated for the top 1,000 listed companies in FY22-23, and voluntary for others from FY21-22. The SEBI recommended report is the first step towards standardisation of sustainability disclosures in India and is expected to get more stringent in the years to come. India is committed to reduce its emissions as conveyed in COP26 last year, and with corporates announcing their respective commitments, their sustainability initiatives and therefore the disclosures will play an important role in the coming days.

The Need

The individual sustainability reports released by various organisations provide choices to the agency to declare selective indicators based on their comfort, choice and intent, but with BRSR report, the indicators are detailed and mostly mandated. Therefore the organisations are expected to set the right processes and systems across functions, so as to gather, compile and report on the relevant indicators from the next FY onwards.

In our sample study, we have found some of the best performing organisations, even if they have comprehensive disclosures, lack data on some parameters across sections in the new BRSR template. For the organisations that do not fall directly into this criteria, it may be a good practice to prioritise the key metrics based on BRSR that are relevant and useful to measure their sustainability journey.

The Benefit

Initiating the BRSR reporting for organisations that are mandated and the ones that are not, will have the following benefit –

- The exercise provides an opportunity to check for one's readiness on critical indicators regulators may be looking to evaluate
- Provide a standardised format to assess one's performance across peers, industries or even complementing sectors
- BRSR can be the first step towards sustainability reporting for organisations, that have so far not plunged into it
- Publishing BRSR also requires the organisations to establish or streamline internal systems and processes, and build capability of the staff that can set the path for future
- As a mid-to-long term outcome, corporates can look to lower cost of capital, improved stock performance & valuations, efficient operational practices and overall reputation gains

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Background and Objective

Background & Objective

Background

The top 1,000 listed companies in India were required to furnish initiatives taken by them from an Environmental, Social and Governance (ESG) perspective, in the format as specified by the Securities and Exchange Board of India (SEBI) in **Business Responsibility Report (BRR)**. The report was shared with the stock exchanges as a part of their annual reports until FY21-22.

Keeping in line with the global evolution of ESG-related reporting, SEBI, through a notification dated 5 May 2021, mandated companies to use a new reporting template based on ESG parameters, called **Business Responsibility and Sustainability Report (BRSR)**. The report notes the following

- Top 1,000 listed companies by market capitalisation, to mandatorily report in BRSR format for FY22-23
- For FY2021-22, voluntary disclosure by the top 1,000 listed companies by market capitalisation in BRSR format
- For listed companies beyond top 1000, have an option to submit BRSR in place of BRR effective FY2021-22 onwards

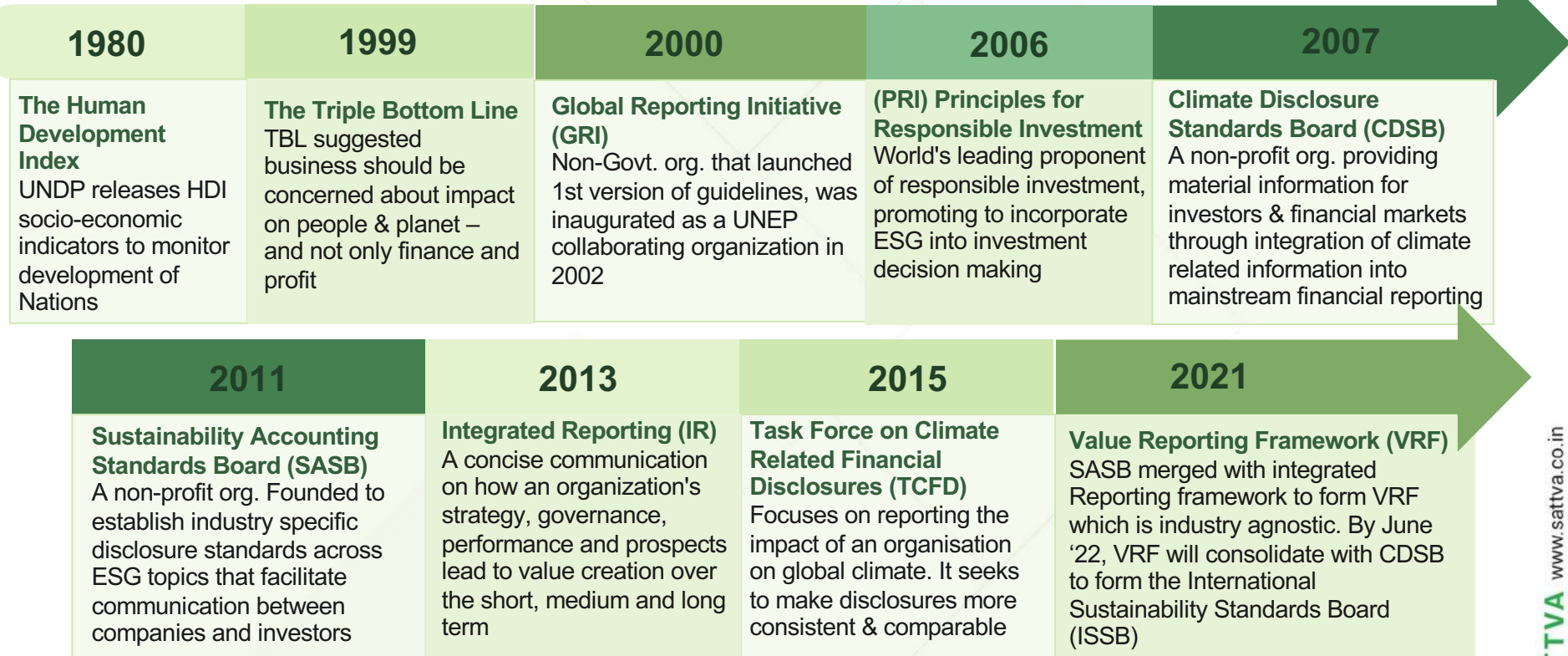
Additionally, SEBI through a notification dated 10 May 2021 has prescribed the format of the BRSR report, along with a guidance note to enable companies to interpret the scope of disclosures required to be made in the report. There are mandatory and optional sections in the BRSR report with 2 versions available to be used for smaller unlisted companies and established entities – **BRSR Lite and BRSR comprehensive**.

Objective

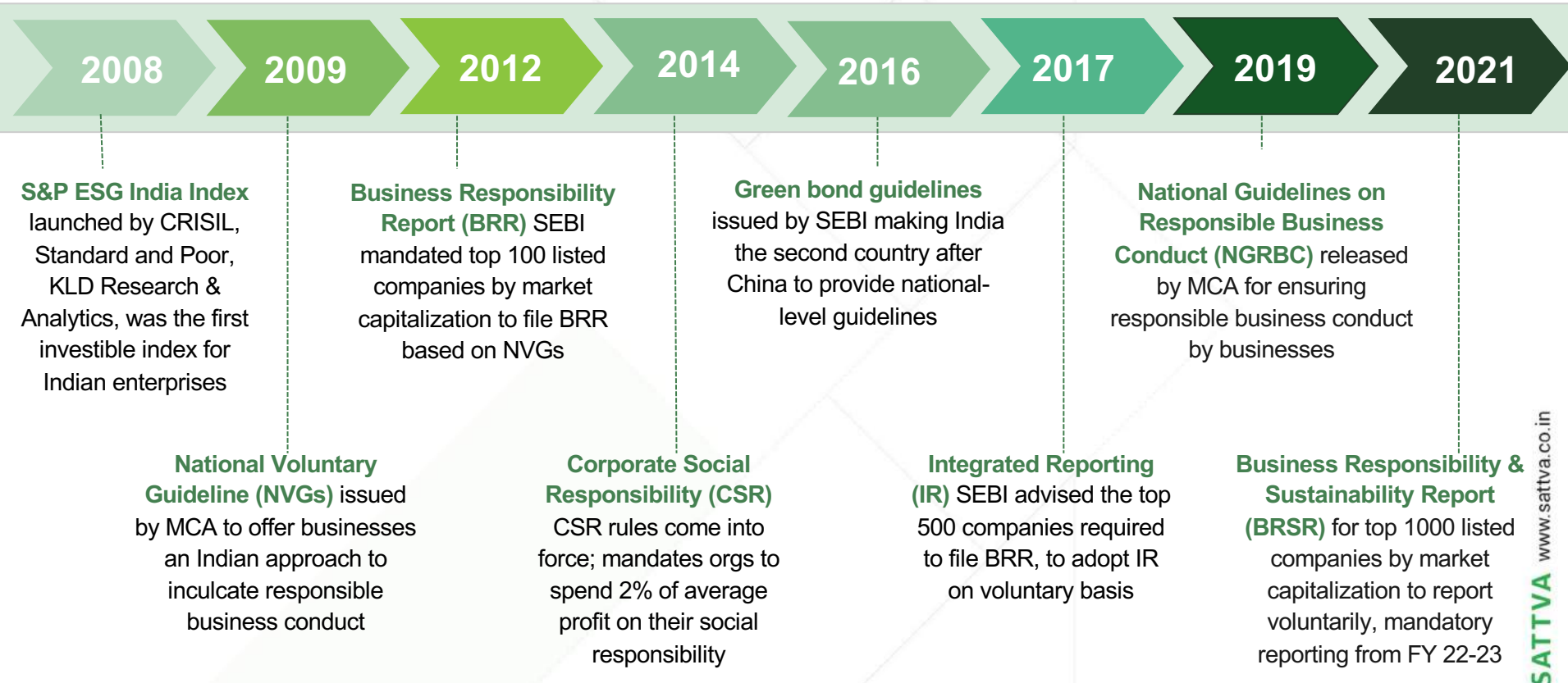
Sattva has put together a **preparatory note on the BRSR framework** before the mandated roll out in FY22-23. The note includes

- Brief overview on the evolving regulations and guidelines
- Comparison of various reporting standards with BRSR
- Research & data analysis of 20 top performing organisations based on market capitalization across 4 sectors, to gauge India Inc's readiness towards meeting BRSR requirements
- Benefits for the business
- Global Influence of ESG on India

Strengthening sustainable business practices & disclosures, is driven globally by regulators, investors, consumers, staff and other stakeholders



In India, the increasing interest towards relevant guidelines & reporting standards, is catching up to the global trend



* applicable for companies with (a) net worth of Rs. 500 crore or more or (b) turnover of Rs. 1000 crore or more or (c) net profit of the company to be Rs. 5 crore or more

Over the past decade, companies publishing sustainability reports to communicate commitment has continued to grow, and with BRSR, this trend will further increase

Key Facts and Insights

Sustainability reporting trends globally

- 92%** of S&P 500 companies published sustainability reports in 2020 globally in comparison to 20% in 2011¹.
- 80%** of top 100 companies by revenue worldwide now report on sustainability⁵.
- 68%** of sustainability reports mentioned COVID-19 or impact of the pandemic in their sustainability report.
- 27%** of executives confirm the operational impacts of climate-related disasters on business, with more than a quarter facing a scarcity of resources due to climate change⁴.

Sustainability reporting trends in India

- 97%** of MSCI India³ constituents publishing sustainability reports².
- 95%** disclosure rate on employee diversity and opportunity policies
- 62** Indian companies have committed to reducing emissions so far, according to the Science Based Targets initiative (SBTi), a global alliance that helps firms set climate goals⁶.

Risk & Opportunities for business⁷

- Indian companies stand to lose Rs 7.14 lakh Cr to the impact of climate change if they do not take mitigation measures over the next five years, according to the Carbon Disclosure Project's (CDP) 2020 annual report.
- 2/3 multinationals plan to tackle their supply chains' emissions, a Standard Chartered study of 400 MNCs in June'21 showed. So to continue supplying to global counterparts, Indian companies have to invest into sustainable practices, else they run a risk of losing \$274 billion in exports every year.
- Capital markets are starting to reward companies making systematic investments in climate change and sustainability efforts by pushing their stock prices higher.
- Investors are increasingly using non-financial disclosures to make investment decisions, which in turn is the reason many companies have moved towards integrated financial reports.

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Introduction to BRSR Reporting

BRSR builds on from BRR reporting to encourage further accountability, transparency and standardization within corporations

Attributes	Business Responsibility Reporting (BRR)	Business Responsibility & Sustainability Reporting (BRSR)
Launch year	2012	2021
Applicability criteria	Applicable to top 100 listed companies by market capitalization in 2012, to 1000 companies in 2019	Voluntary applicability of BRSR on the top 1000 listed entities by market capitalization for FY 2021-22, and mandatorily be obliged to such reporting from FY 2022-23
Underlying guideline	National Voluntary Guidelines(NVGs) introduced in 2011	9 principles of National Guidelines on Responsible Business Conduct (NGRBC) revised in 2019
Primary Reporting Values	Integrity & ethics	Accountability, greater transparency, cross reporting & interlinkage with other reporting standards, better defined performance metrics, uniformity and comparability across industries
Reporting mechanism	Reporting as a part of annual reports	Reporting as a part of annual reports and file to Ministry of Corporate Affairs (MCA)
Core Principles	Ethics & transparency Safety Employee well-being Stakeholder management Human rights Environmental preservation Public & regulatory policy Inclusive growth Customer centric service	The 9 principles of NGRBC have been detailed further and mapped to performance indicators that may be mandatory or voluntary (Leadership). The details requested in BRSR warrants leadership accountability, consistency in reporting & ownership of business impact.

BRSR demands organisations to report in fair amount of detail, however it may have some chances of disparity in quality, depth and uniformity of information

SECTION A

General Disclosures



Disclosure questions related to:

- Details of the listed entity, products/ services, operations
- Markets served, employees, representation of women, turnover rate for permanent employees
- Holdings, subsidiaries & associate companies
- CSR details, transparency & disclosures compliances

SECTION B

Management & Process Disclosures



Disclosure questions related to:

- Policy & management processes
- Governance, leadership & oversight

SECTION C

Principle wise Performance Disclosures



Essential indicators (Mandatory):

- Data on awareness programs conducted
- Environmental data on energy, emissions, waste, water etc.

Leadership indicators (Voluntary):

- Data on life cycle assessments (LCAs), conflict management policy, breakup of energy policy etc.

SEBI has suggested 2 options for BRSR reporting: one for organisations that have matured and the ones who are embarking the journey

BRSR Lite

The underlying principle behind the Lite version is that the implementation of reporting requirements should be done in a phased manner, such that smaller companies get ample time to adapt and learn from the larger ones

The lite version of the report allows smaller unlisted companies below a certain threshold (currently undefined by SEBI) to adopt a lite version of the BRSR format on a voluntary basis to make it easier for such companies to report on sustainability-related matters

Leadership indicators (under Section C) are not mandatory under the lite version of BRSR

BRSR Comprehensive

The BRSR framework is expected to meet global reporting standards that lay emphasis on ESG related disclosures and enhance contribution towards sustainable growth and development. It is an effective compliance and communication tool for a company's non-financial disclosures

The reporting of the comprehensive version of BRSR is mandated by SEBI, from FY 22-23, for the top 1000 listed companies in India by market capitalization




Essential and leadership indicators (under Section C) are mandatory under the comprehensive version of BRSR

The scoring mechanism of BRSR comprises total 300 scores (225 scores under Section A, B, and C- Essential Indicators and 75 scores under Section C- Leadership Indicators)

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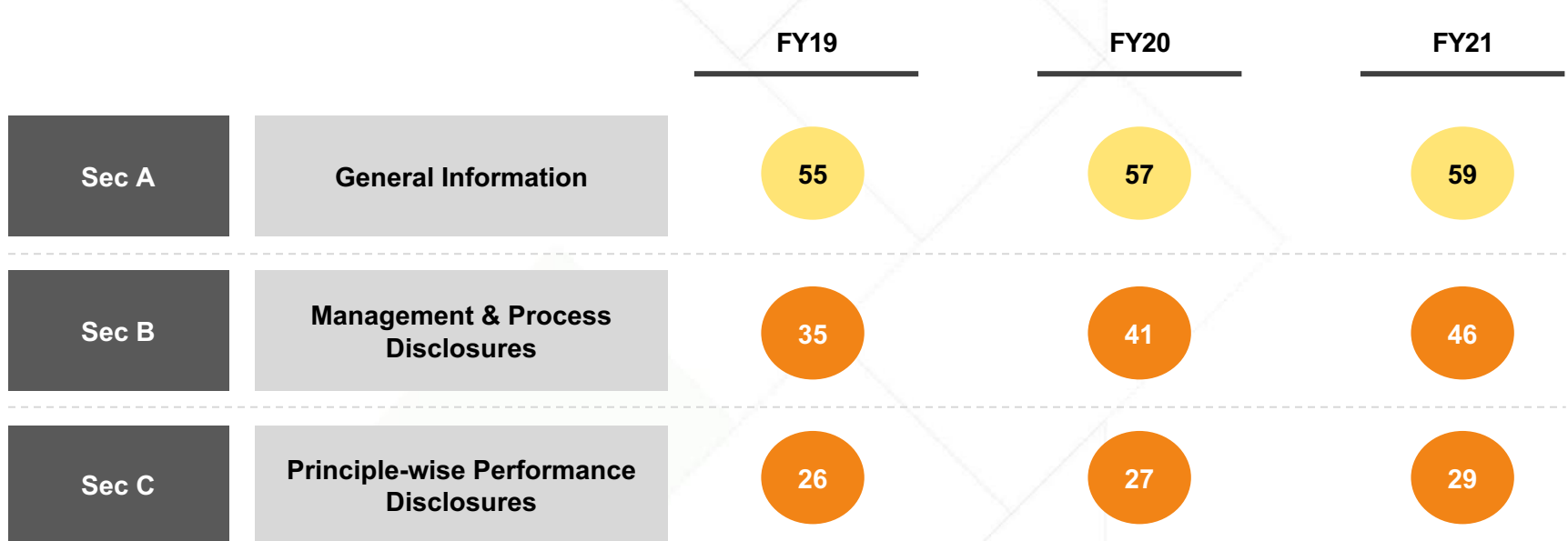
Business Insights from Sample Top 20 Companies

Overview of the research study

Element	Details
<p>1  Industry selection</p>	<ul style="list-style-type: none">▪ Top 20 companies were selected across manufacturing and services industry based on market capitalization▪ The hypothesis provides us an opportunity to identify large organisations, top in the list and the ones beyond the top ranked, along with mid to small sized organisations that have areas of improvement across ESG parameters
<p>2  Data collection</p>	<ul style="list-style-type: none">▪ Data was sourced against the 198 BRSR attributes through company reports, such as Annual reports, Sustainability / ESG / BRSR reports▪ Data was analyzed across three financial years - FY19 to FY21▪ The analysis included reporting on 'availability' of data across the required attributes
<p>3  Data insights</p>	<ul style="list-style-type: none">▪ Though reporting levels against the BRSR framework has improved marginally across years, overall disclosure levels were observed to be far from the required levels▪ The disclosure patterns are consistent across industries, with firms reporting better on Section A: General Information▪ Data availability is lowest for Section C: the nine Principles▪ Amongst the principles, data availability is highest across industries for Principles 4 (marginally stakeholders) and 7 (regulatory policy) and lowest for Principles 2 (sustainable goods and services), 3 (employee well-being), and 8 (inclusive growth)

While there has been a steady progress in disclosure in the past 3 years, the progress is far from satisfactory

% availability of information across sections



N = 20

Legend >>

100%

75-99%

50-74%

25-49%

0-24%

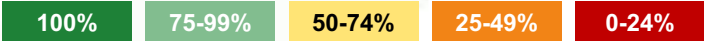
General information is reported better in comparison to other sections; however, the pattern across sections is consistent across industries

% availability of information across sections (FY21)

		BFSI	IT	Textile	Chemical
Sec A	General Information	65%	58%	54%	57%
Sec B	Management & Process Disclosures	48%	43%	46%	50%
Sec C	Principle-wise Performance Disclosures	29%	32%	26%	28%

N = 20

Legend >>

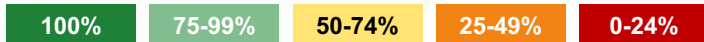


Highest disclosures around marginalised stakeholders and regulatory policy, while lowest reporting is on inclusive growth and sustainable goods / services

		Overall (%)	BFSI	IT	Textile	Chemicals
Pr. 4	Marginalised Stakeholders	100%	100%	100%	100%	100%
Pr. 7	Regulatory Policy	100%	100%	100%	100%	100%
Pr. 9	Consumer Engagement	38%	39%	46%	32%	33%
Pr. 6	Environment Restoration	31%	36%	47%	30%	35%
Pr. 1	Transparent & Accountable Business	28%	28%	31%	25%	26%
Pr. 5	Human Rights	27%	27%	24%	29%	28%
Pr. 3	Employee Well-being	23%	23%	27%	17%	25%
Pr. 2	Sustainable Goods and Services	22%	21%	22%	25%	23%
Pr. 8	Inclusive Growth	13%	19%	13%	3%	14%

N = 20

Legend >>



Business Readiness across 9 Principles (1/4)

Principle	Topic	Findings
PRINCIPLE 1	Training	<ul style="list-style-type: none">Majority of the companies (80%) reported on all attributes pertaining to training details for permanent employees<ul style="list-style-type: none">100% of the IT companies have reported on all the training attributesReporting on trainings for BoD / leadership and contractual workers is low
	Penalties & Corruption	<ul style="list-style-type: none">All companies have reported details of penalties / fines levied by regulatory authorities, however, reporting on corruption complaints is low across sectors
	Conflicts of Interest	<ul style="list-style-type: none">50% of the companies reported on complaints received against directors whereas 9 out of 20 companies reported having a process in place to manage such conflicts
PRINCIPLE 2	Reporting on Sust Goods / Services	<ul style="list-style-type: none">Majority of the companies (75%) reported on environmental / social aspects of products and services<ul style="list-style-type: none">8 companies reported capital investment on energy conservation equipmentOnly 1 company(HDFC) - reported on % R&D / capex investment for improving environment / social aspect of products
	Sourcing / EPR	<ul style="list-style-type: none">Majority of the companies (90%) reported on sustainable sourcing, however, only 20% reported on % inputs sourced sustainablyReporting on usage of recycled input material in production is low (10%) across sectorsReporting on applicability of Extended Producer Responsibility is low (25%) across sectors

Business Readiness across 9 Principles (2/4)

PRINCIPLE 3	Employee Benefits	<ul style="list-style-type: none"> Majority of the (75%) companies reported on insurances and employee benefits for permanent employees, however reporting for BoD, leadership and workers on the same was low <ul style="list-style-type: none"> Health insurance was highest reported across sectors, followed by parental benefits
	Training	<ul style="list-style-type: none"> Majority of the companies (80%) have reported on training details of permanent employees, however reporting of gender segregated data is low <ul style="list-style-type: none"> IT and textile industries have the best reporting (100%)
	Hazard	<ul style="list-style-type: none"> Reporting on occupational health and safety management system attributes and identifying work related hazards is low across sectors <ul style="list-style-type: none"> Chemicals firms report better than the rest, on this set of information
	Safety	<ul style="list-style-type: none"> Overall, reporting on safety related incidents is low; manufacturing firms (especially chemicals companies) have better reporting than other sectors Only 5 companies (majority Chemical) reported on assessment of value chain partners
	Retention and Review	<ul style="list-style-type: none"> Reporting on information pertaining to employee retention and career development reviews is low; incidentally more firms have reported gender segregated numbers as opposed to overall levels
	Employee Unions	<ul style="list-style-type: none"> Majority of the companies (95%) have reported details on employee unions, however only 55% have reported gender segregated numbers
PRINCIPLE 4	Marginalised Stakeholders	<ul style="list-style-type: none"> Details on engagement with marginalised stakeholders is well reported (100%) across all sectors

Business Readiness across 9 Principles (3/4)

PRINCIPLE 5	Complaints	<ul style="list-style-type: none">• 12 out of 20 (60%) firms have reported on human rights training provided to permanent employees. However, details on training to contractual employees / workers is not well reported• All companies have reported on POSH complaints, followed by child labor and discrimination at workplace<ul style="list-style-type: none">• Manufacturing firms have better reporting on employee complaints than other sectors
	Remuneration	<ul style="list-style-type: none">• Majority of the firms (95%) reported on remuneration details for BoDs and leadership, however remunerations details for employees are not well reported (30%)
PRINCIPLE 6	Environment	<ul style="list-style-type: none">• Energy / emissions attributes are better reported across all sectors, as compared to water and waste attributes<ul style="list-style-type: none">• An exception to this is the Textile sector that reported better (50%) on water data
	Energy	<ul style="list-style-type: none">• Majority of the firms (70%) have reported on scope 1 / scope 2 emissions across sectors. However, only 9 companies reported on emission intensity and even less (4) reported on details pertaining to specific emissions like NOx, SOx etc.
	Emissions	<ul style="list-style-type: none">• Of the 14 (70%) firms reporting total energy consumption, 12 have reported on consumption from all energy sources• Only 30% companies have reported energy intensity
	Water	<ul style="list-style-type: none">• Only 50% companies reported total water consumption, and even less (~30%) reported consumption from all sources.• Reporting on water intensity is low (15%) across all sectors• While 25% companies reported details on zero liquid discharge mechanism, only ~15% reported coverage<ul style="list-style-type: none">• Only manufacturing companies have reported this data

Business Readiness across 9 Principles (4/4)

PRINCIPLE 6	Waste	<ul style="list-style-type: none">50% (10) of the companies reported on waste management details for any type of waste, whereas only 3 companies reported on all waste generated<ul style="list-style-type: none">Overall reporting on e-waste (30%) is higher than other categories - better reporting by services firms on this categoryIT sector has the highest reported details on waste management
PRINCIPLE 7	Industry Associations	<ul style="list-style-type: none">All companies have reported on industry associations membership
PRINCIPLE 8	Sourcing	<ul style="list-style-type: none">While 60% of the companies reported on sourcing locally, only 5 reported actual percentage of inputs sourcedReporting on sourcing from MSME / small producers is low (20%)While 45% of the companies reported on having a preferential procurement policy, only a few (~5%) reported on the marginalised communities they source from, and percentage of inputs sourced
PRINCIPLE 9	Consumer Complaints	<ul style="list-style-type: none">All companies have reported having a mechanism in place to receive and redress consumer complaints and feedbackComplaints on advertising and unfair trade practices (75% for both) are the highest reported across all sectors<ul style="list-style-type: none">BFSI companies reported better (50%) on data privacy complaints
	Cyber Security	<ul style="list-style-type: none">60% of the companies reported having a framework / policy on cyber security and risks related to data privacy<ul style="list-style-type: none">Majority of the IT (100%) and BFSI (83%) companies reported this data
	Product Information	<ul style="list-style-type: none">All companies reported providing information on products / services through various channels / platforms / linksMajority of the companies (85%) reported on having taken steps to inform consumers on safe product usage<ul style="list-style-type: none">All chemical companies reported this data

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BRSR Report and other reporting standards

Going forward, BRSR may serve as the single comprehensive source of non-financial sustainability information relevant to all business stakeholders¹

- As per SEBI, the BRSR guidance note suggests listed companies which prepare and disclose sustainability reports (as part of annual report) based on internationally accepted reporting frameworks² can cross-reference the disclosures made under such frameworks to the disclosures sought under the BRSR.
- In case the data sought in the reporting format is already disclosed in the annual report, the listed entity can provide a cross-reference to the same.
- In addition, the organisation may disclose any other relevant sustainability related information at appropriate places in the BRSR report as deemed fit.
- The BRSR seeks disclosure of the reporting boundary i.e. whether the reporting is done for the entity on a stand-alone or consolidated basis. Listed entities shall ensure consistency in reporting boundary across the report.
- In case disclosures are not applicable, reasons for the same is expected by MCA

UN SDGs are the backbone of the Principles of NGRBC; each of the 9 Principles forms the very base of BSRR reporting

1 Integrity, transparency, & accountability



2 Sustainable provision of goods & services



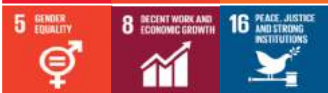
3 Employee well-being



4 Respecting interests of stakeholders



5 Promotion of human rights



6 Protection of the environment



7 Transparent policies & engagement with public






8 Inclusive growth & equitable development






9 Responsible value provision to consumers



Snapshot of other international frameworks that can be cross referenced to BRSR during reporting

Name	Inception	Purpose	Information Disclosed	Best Suited For	Audience
 <p>Global Reporting Initiative (GRI)</p>	1997	<ul style="list-style-type: none"> Helps organisations report on economic, social and environmental impact considering various range of interests 	<ul style="list-style-type: none"> General disclosures (governance, stakeholder engagement & reporting practices) Economic impact Environmental impact Social impact 	<ul style="list-style-type: none"> Companies of any size, sector or location 	<ul style="list-style-type: none"> Wide range of stakeholders
 <p>Carbon Disclosure Project(CDP)</p>	2002	<ul style="list-style-type: none"> Captures environmental performance and data related to GHG emissions 	<ul style="list-style-type: none"> Climate change impacts Water impacts Forest impacts Supply chain 	<ul style="list-style-type: none"> Publicly listed companies & suppliers looking to manage, disclose carbon footprints 	<ul style="list-style-type: none"> Investor Procurement Policymakers
 <p>International Integrated Reporting Council (IR)</p>	2010	<ul style="list-style-type: none"> Establishing guiding principles and content, allowing companies to produce integrated report 	<ul style="list-style-type: none"> Environmental impacts Social capital Human capital Business model resilience & innovation Physical climate change impacts Leadership & governance 	<ul style="list-style-type: none"> Framework guidance for how information is presented on topics: <ul style="list-style-type: none"> Global Industry-agnostic Principles-based High-level elements Drives connectivity of information 	<ul style="list-style-type: none"> Investors Lenders

Few more of the International reporting frameworks

Name	Inception	Purpose	Information Disclosed	Best Suited For	Audience
 <p>Sustainability Accounting Standards Board (SASB)</p>	2012	<ul style="list-style-type: none"> Facilitates disclosure of material sustainability information in SEC filing in US 	<ul style="list-style-type: none"> Environmental impacts Social capital Human capital Business model resilience and innovation Physical climate change impacts Leadership and governance 	<ul style="list-style-type: none"> Standard requirements for reporting by topic and industry: <ul style="list-style-type: none"> United States only Industry specific Metrics-based Disclosure topics and metrics enables compatibility of info 	<ul style="list-style-type: none"> Financial Stakeholders
 <p>Task Force on Climate related Financial Disclosures (TCFD)</p>	2017	<ul style="list-style-type: none"> Encourages firms to align climate related risks disclosures with investors needs 	<ul style="list-style-type: none"> Governance Strategy planning including climate change Risk management 	<ul style="list-style-type: none"> Companies seeking to plan for and mitigate climate-related risks 	<ul style="list-style-type: none"> Wide range of Stakeholders
 <p>International Sustainability Standards Board (ISSB)</p>	2021	<ul style="list-style-type: none"> Drive a comprehensive baseline with info on sustainability related risks and opportunities 	<ul style="list-style-type: none"> Technical Readiness Working Groups (TRWG) Climate specific and general requirements prototype sets 	<ul style="list-style-type: none"> Identification, measurement, and disclosure of climate related financial information 	<ul style="list-style-type: none"> Investors, capital market participants

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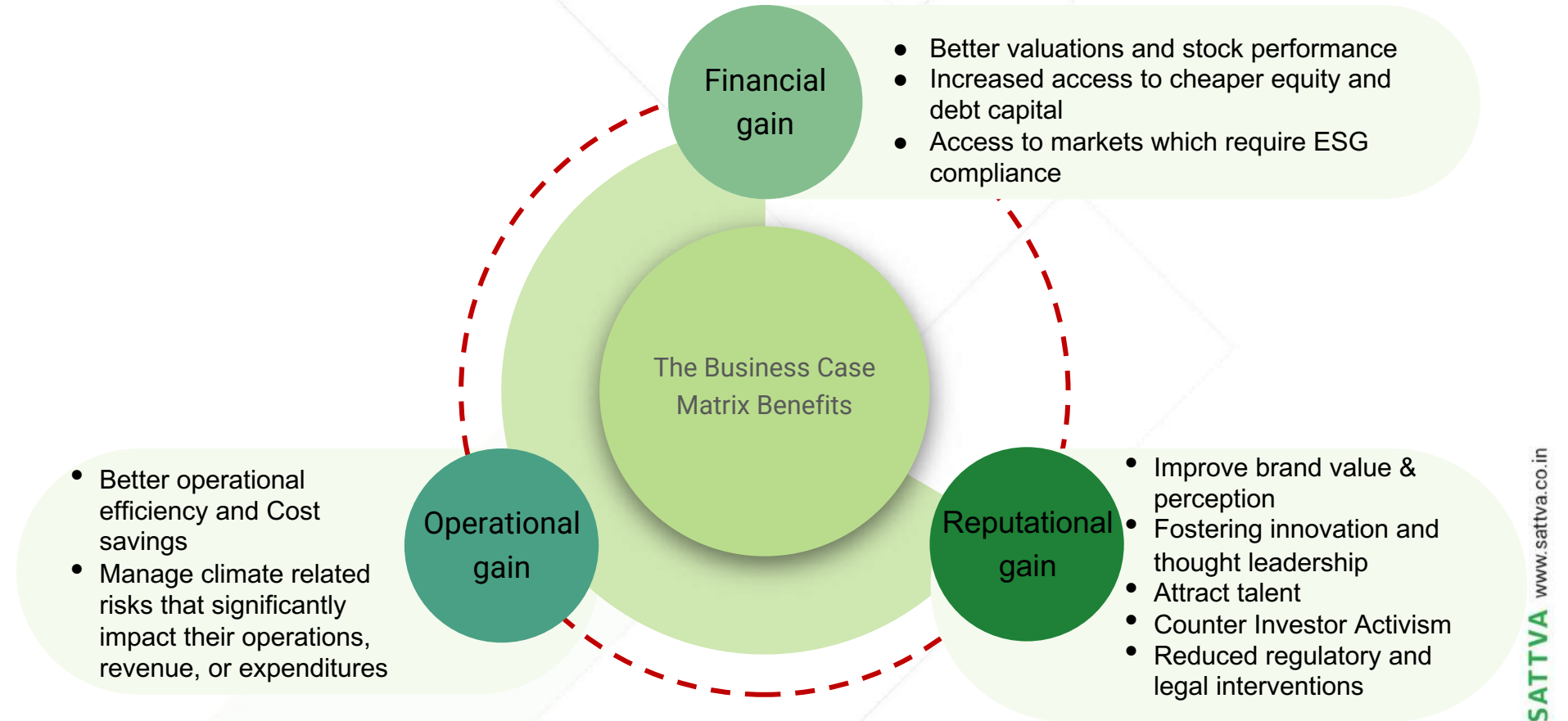
Benefit for Companies

Business case matrix maps the BRSR principles to its attribution of value creation for business

BRSR Principles	Revenue growth and market access	Cost savings and productivity	Access to capital	Risk management/ license to operate	Human capital	Brand value/ reputation
Integrity, ethics, transparency, accountability	●	○	●	●	●	●
Safe and sustainable goods and services	●	●	●	●	●	●
Well-being of organisations employees	○	●	○	●	●	●
Respect and responsiveness to all stakeholders	●	●	●	●	●	●
Respect and promote human rights	●	●	●	●	●	●
Respect, protect and restore the environment	●	●	●	●	●	●
Responsible and transparent policy advocacy	●	○	○	●	●	●
Promote inclusive growth and equitable development	●	●	●	●	●	●
Provide value to consumer responsibly	●	○	●	●	●	●

IMPACT: ● Direct ● Indirect ○ None

BRSR aims at not mere reporting, but the implementation of the NGRBC principles, thereby effectively addressing the ESG related challenges

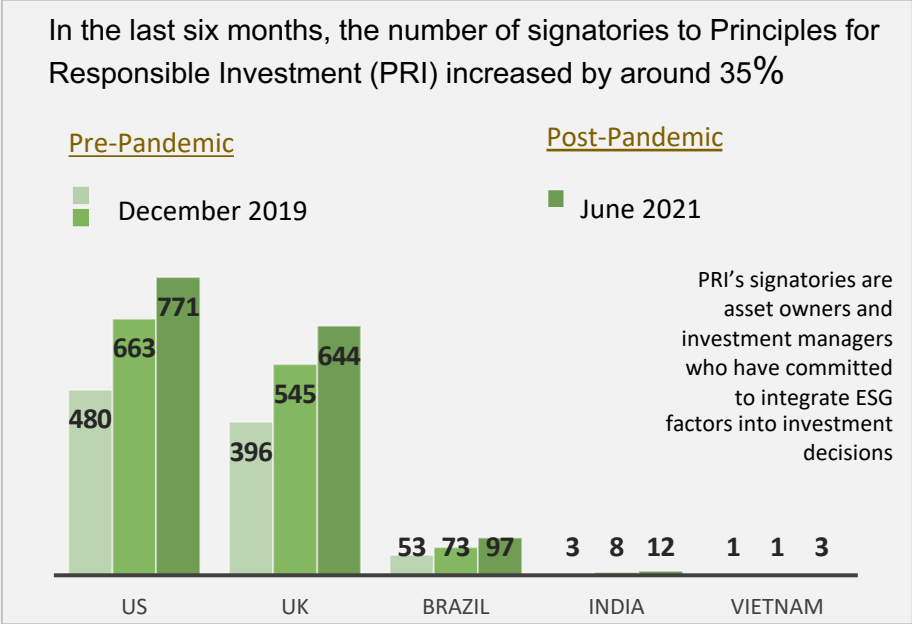


While companies have increased their thrust on ESG, a direct co-relation of valuation to ESG-related factors is emerging over time

FINANCIAL

OPERATIONAL

REPUTATIONAL



As per PRI, Ambit Capital Research

- 74% of the institutional investors now more likely to “divest” based on poor environmental, social and governance (ESG) performance, than before the COVID-19 pandemic.
- Vast majority (90%) say they now pay more attention to companies’ ESG performance when making investment decisions, but admit they’ve been slow to take concrete action.
- Global sustainable assets have grown at 12% CAGR between 2016 & 2020.
- Indian AUM (assets under management) of ESG have risen 370% from INR 2,630 Cr in 2019 to 12,300 Cr in 2021.

As per the MSCI metrics, ESG leaders command higher valuations and mostly perform better than rest of the organisations

		MSCI ACWI		MSCI INDIA	
CAGR % (as on Nov 30, 2021)		ESG Leaders	Overall	ESG Leaders	Overall
FINANCIAL	1 Year	21.31	19.78	28.07	34.09
	3 Year	17.45	16.53	16.77	14.74
	5 Year	15.07	14.57	16.61	14.22
	10 Year	12.34	11.98	12.30	9.77
Valuations					
REPUTATIONAL	P/E Forward	19.18	17.76	25.05	21.72
	P/BV – Price /book value	3.48	3.00	3.79	3.65

Incidentally, the investors are also increasingly focusing on ESG to take decisions related to their portfolios



- 2771 signatories participated in the survey and 82% of the reporting asset owners said they incorporated ESG factors into their selection, appointment, and monitoring processes this year.
- 86% reported implementing ESG requirements in their requests for proposals, investment management agreements, limited partnership agreements and other appointment processes

FINANCIAL

OPERATIONAL

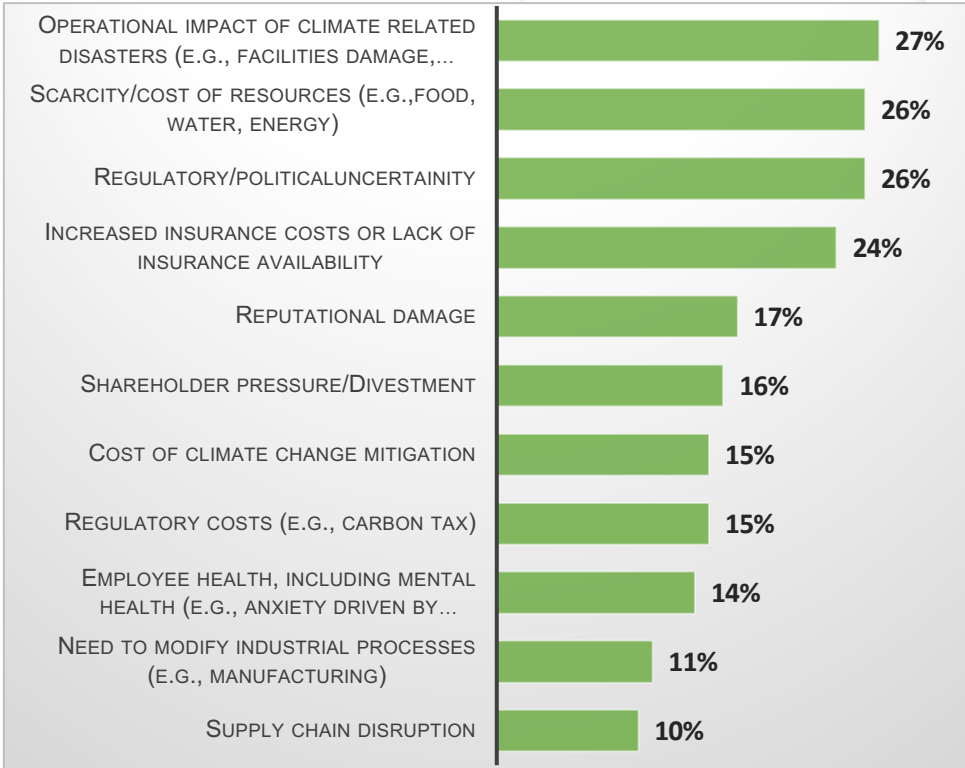
REPUTATIONAL

Impact of climate-related disasters on regular business operations or scarcity of resources to function normally are direct challenges faced by organisations

FINANCIAL

OPERATIONAL

REPUTATIONAL



As per the Deloitte Global climate survey of 750 executives worldwide conducted in Q1 2021 In response to the question - biggest sustainability issue faced by the organisation.

- 88% of the research shows that solid ESG practices result in better operational performance of firms.
- The most cited environmental issue is operational impact as climate-related events increasingly disrupt business models and supply networks worldwide.
- Cost of operation:
 - Good corporate governance structures such as small and efficient boards and good disclosure policies lead to lower borrowing costs.
 - Good environmental management practices, such as the installation of pollution abatement measures lowers the cost of operations.
 - The existence of anti-takeover measures increases a firm's cost of equity and vice versa.

Integrating reputational risk assessment regularly, as part of the company's overall governance and culture, will continue to prioritize key ESG challenges

FINANCIAL

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Drivers of decisions to prepare ESG disclosures in 2021



- Some potential risk triggers identified during the survey were –
 - Social issues like lack of diversity, equality, and inclusion; labour relations; or community impact
 - Governance risks like compliance failures or activist investors
 - Environmental risks like greenhouse gas emissions or waste management impacting the reputation

Source: Bloomberg Law ESG Survey 2021

6

Global Trends on ESG Reporting

The global reforms on ESG that may directly or indirectly influence Indian multinationals and other organisations in the value chain in the future

As of 2021, at least 30 countries around the world have or have plans in place to institute ESG related reporting, with countries such as France, Australia and Canada being some of the early proponents of ESG reporting in 2001, 2003 & 2004 respectively.

Studies at the Swiss Investment institute have supported the argument that:

- Mandatory ESG disclosure increased the accuracy of analysts' earnings forecasts and lowers analyst forecast dispersion
- ESG's ability to reduce negative ESG incidents, leads to regulatory changes, and eventually translate into a reduced likelihood of stock price crashes. Eg: BP oil spill in the Gulf of Mexico in 2010 significantly affected market prices
- Effects are strongest if the mandatory disclosure is introduced all at once for E, S, and G and if the relevant authority is a government instead of a national stock exchange

European Union

- New ESG Regulation Out of Europe Redefines Investment Risk - The EU's *Sustainable Finance Disclosure Regulation (SFDR)*, which came into effect in March'21, is designed to drive capital toward sustainably-oriented investments.
- Under the SFDR, all EU asset managers are asked to publicly disclose their approach to incorporating sustainability considerations in their investment decisions

Americas

- On June 16, 2021, the U.S. House of Representatives passed legislation that would impose new ESG due diligence and disclosure requirements on publicly traded companies.
- They mandated that public companies listed with the U.S. Securities and Exchange Commission (SEC) disclose at their shareholder meetings the link between ESG metrics and the long-term business strategy" of the company; and "a description of any process" the company uses to "determine the impact of ESG metrics on the long-term business strategy" of the company.

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