

Business Responsibility and Sustainability Reporting by listed entities

1.0 Objective

This memorandum seeks the approval of the Board for revising the format for business responsibility reporting on Environment, Social and Governance (ESG) indicators, as mandated under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (**'LODR Regulations'**).

2.0 Background

2.1. Global Developments

2.1.1. In recent years, adapting to and mitigating climate change impact and transitioning to sustainable development have emerged as major issues globally. There is an increasing investor focus on sustainability investing, which is reflected in an increase in total assets and inflows in sustainable funds. Worldwide, the total assets in sustainability funds have increased from USD 550 billion at the beginning of 2018 to USD 1,258 billion at the end of September 2020 - an increase of 129%, equating to a CAGR of 35% (Source: Morningstar). The Covid-19 pandemic has also accelerated the relevance of ESG considerations to the investors.

2.1.2. Funds in India contribute only around 0.05% of the global assets in sustainable funds. Out of the 8 ESG themed funds in India, 6 were launched in the calendar year 2020, thereby indicating the increasing focus on and appetite for sustainability investing.

2.1.3. As ESG investing becomes more mainstream, disclosure requirements need to keep pace with this change. While companies have been facing increasing pressure from investors and other stakeholders to disclose their ESG risks, practices and impacts; regulators around the world are also increasingly requiring ESG disclosures. For instance:

- 2.1.3.1. The United Kingdom has introduced climate-change reporting by listed premium companies based on the recommendations of the Taskforce on Climate-related Financial Disclosures (TCFD), on a “comply-or-explain” basis from FY 2021-22. These disclosures will gradually apply on a mandatory basis and to a wider set of entities, such that economy-wide mandatory climate related disclosures will be in place by FY 2024-25.
- 2.1.3.2. The European Union (EU) is strengthening its "Non-Financial Reporting Directive" , which requires ESG disclosure from companies with more than 500 employees doing business in the EU.
- 2.1.3.3. New Zealand has announced mandatory climate-related disclosures, based on the TCFD framework, for all listed equity and debt issuers by 2023.
- 2.1.3.4. The USA Securities and Exchange Commission has also recently announced its intention to enhance its focus on climate-related disclosures.
- 2.1.3.5. Amongst Asian jurisdictions, Hong Kong has mandated disclosures on board statement and significant climate issues that impact the issuer, while Key Performance Indicators (KPIs) can be disclosed on “comply or explain basis; Taiwan has mandated sustainability disclosures for companies above a certain threshold of paid-up capital and Singapore has also introduced sustainability reporting on a "comply or explain" basis since June 2016.

2.2. Business responsibility reporting in India

- 2.2.1. In 2012, SEBI mandated the top 100 listed entities by market capitalisation to file Business Responsibility Reports (BRR) as part of their annual report, as per the disclosure requirement emanating from the ‘National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business’ (NVGs). The requirement for filing BRRs was progressively extended to the top 500 listed entities

by market capitalisation in 2015 and to the top 1000 listed entities in 2019.

2.3. Committee on Business Responsibility Reporting

- 2.3.1. In order to keep pace with global developments viz. the UN Sustainable Development Goals (SDGs), Paris Agreement on Climate Change and the United Nations Guiding Principles on Business and Human Rights (UNGPs), the NVGs were revised and released as the National Guidelines on Responsible Business Conduct (NGRBCs) in March 2019.
- 2.3.2. Subsequently, the Ministry of Corporate Affairs (MCA) constituted a Committee on Business Responsibility Reporting ('Committee'), of which SEBI was a member, for finalising BRR formats for listed and unlisted companies, based on the framework of the NGRBCs. The Committee made its recommendations keeping in view the global developments, which are increasingly seeking businesses to be responsible and sustainable towards their environment and society and increased focus of investors on sustainability investing.
- 2.3.3. The Committee recommended that the Business Responsibility Report may be called the Business Responsibility and Sustainability Report ('BRSR'), to better reflect the scope of the reporting requirements.
- 2.3.4. The BRSR recommended by the Committee is structured around disclosures on the nine principles laid down by the NGRBCs accompanied with a guidance note to enable the companies to interpret the scope of disclosures under each principle. The disclosure requirement under each of the nine principles is also divided into 2 sections: Essential (mandatory) and leadership (voluntary).

3.0 **Consultation with stakeholders**

- 3.1. Based on the recommendations of the Committee, the proposed format of BRSR was placed for public consultation.
- 3.2. Comments were received from over 35 stakeholders including corporates; overseas and Indian institutional investors; international organizations such as OECD, World Bank, UN Principles for Responsible Investing (UNPRI); sustainability related disclosure standard setters – Global Reporting Initiative (GRI) and Sustainability Accounting Standards Board (SASB); Credit Rating Agencies; Industry bodies and individuals.
- 3.3. Some of the public comments stated that sustainability reporting should be aligned with international disclosure frameworks. Further, there were comments that the disclosures on environment need to be more granular especially on resource usage, Green-house gases (GHG) and air emissions, waste generation etc. Some comments also sought enhanced labour related disclosures. Few corporates commented that disclosures that are made as part of any internationally accepted disclosure framework or are already part of the annual report, should not be sought again. Corporates also commented that in view of the enhanced scope of the BRSR format, reporting should be voluntary for FY 2020 – 21 & FY 2021 – 22 and mandatory from FY 2022 – 23.
- 3.4. After public consultation, dialogues on a one to one basis were also held with representatives from GRI, SASB and the World Bank to take their feedback. Pursuant to the said consultations, a benchmarking exercise of the proposed disclosures with the extant international disclosure frameworks was undertaken. Based on the feedback received and the benchmarking exercise, the proposed BRSR format was revised to make it more relevant and granular.
- 3.5. Subsequently, on January 15, 2021, SEBI conducted a round-table, chaired by Chairman, SEBI, to gather views of the stakeholders on the preparedness for enhanced disclosures, prior to finalization of the formats. The round-table was attended by around 17 senior-level participants from corporates across diverse sectors (pharmaceutical, chemicals, textiles, power, aviation, consumer goods, IT, financial services, etc.); fund

management industry and industry bodies (FICCI and CII) wherein feedback on sector specific disclosures was sought from the relevant industry participants. The format was further revised based on the feedback received in the said roundtable.

4.0 **Brief on the BRSR format**

- 4.1. The proposed BRSR format is a notable departure from the existing format for business responsibility reporting. The BRSR lays considerable emphasis on quantifiable metrics, which allows for easy measurement and comparability across companies, sectors, and time periods. Further, the disclosures on climate and social (employees, consumers and communities) related issues of the entity are significantly enhanced and made more granular as compared to the disclosures under BRR.
- 4.2. The structure of the BRSR format is segregated under essential (“mandatory”) and leadership (“voluntary”) indicators. The leadership indicators in the BRSR format also includes disclosures related to the value chain of the listed entities. This is in line with the thrust of the NGRBCs on responsibility of businesses to encourage and support their value chain in following the same ESG principles. The format and accompanying guidance note are enclosed at **Annex – 1**.
- 4.3. The disclosures as per the BRSR format are expected to bring in more standardization, which will enable better measurement and comparability and be helpful for investors to make better investment decisions. It will also enable companies to engage more meaningfully with their stakeholders, by encouraging them to look beyond financials and towards social and environmental impacts.
- 4.4. A few of the key disclosures sought in the BRSR on ESG related parameters are highlighted below:
 - 4.4.1. An overview of the entity’s material ESG risks and opportunities, approach to mitigate or adapt to the risks along-with financial implications of the same.
 - 4.4.2. Environment related disclosures:
 - 4.4.2.1. Essential indicators include disclosures on:

- a. Resource usage: Energy consumption, water withdrawal and consumption
- b. Air emissions: Scope 1, Scope 2 Green-house gases (GHG) and air pollutant emissions
- c. Waste management: Quantum of hazardous and non-hazardous waste generated, re-used and recycled along-with waste management practices
- d. Compliance with Extended Producer Responsibility (EPR) plan submitted to Pollution Control Boards and Performance-Achieve-Trade (PAT) Scheme of the Bureau of Energy Efficiency.

4.4.2.2. Leadership indicators include disclosures on:

- a. Energy consumption mix through renewable & non-renewable sources, water discharge,
- b. Water consumption in areas of water stress,
- c. Scope 3 GHG emissions
- d. Reclaimed products (as % of products sold)
- e. Impact on bio-diversity

4.4.3. Social related disclosures:

- 4.4.3.1. Employees / workers related: Disclosures on gender and social diversity including measures for differently abled employees and workers, turnover rates, median wages, welfare benefits to permanent and contractual employees / workers, occupational health and safety, trainings etc.
- 4.4.3.2. Community related: disclosures on Social Impact Assessments (SIA), Rehabilitation and Resettlement, Corporate Social Responsibility etc.
- 4.4.3.3. Consumer related: disclosures on product labelling, product recall, consumer complaints in respect of data privacy, cyber security etc.

4.4.4. Governance related disclosures:

4.4.4.1. Role of the Board in sustainability: Statement from the director responsible for the report, to highlight sustainability related challenges, targets and performance.

4.4.4.2. Conduct related: Disclosures on fines/penalties / action taken by regulatory authorities or judicial institutions or any law enforcement agency on any of the principles.

4.5. Further, the following has been clarified through the guidance note accompanying the BRSR:

4.5.1. Inter-operability of reporting: In order to address concerns of duplication of reporting of information by entities which prepare sustainability reports based on internationally accepted reporting frameworks, entities may provide a cross-referencing of the disclosures so made under such framework while making the relevant disclosures sought under the BRSR format. A cross-referencing may also be done in case any information is already disclosed in the annual report.

4.5.2. Sector-specific issues: The BRSR format is generic and does not seek sector-specific information; it is thus possible that some of the disclosures may not be relevant for entities belonging to particular sectors. In such cases, entities may mention that the disclosure is not applicable along-with reasons for the same.

5.0 **Applicability**

5.1. The proposed BRSR shall be applicable to the top 1000 listed entities (by market capitalization) for reporting on a voluntary basis for FY 2021 – 22 and mandatory from FY 2022 – 23.

5.2. The filing of BRSR shall be in the manner and form as specified under the provisions of LODR Regulations.

6.0 **Proposal to the Board**

6.1. The Board is requested to consider and approve the amendment to the LODR Regulations along-with the proposed BRSR format. (**Annex-1** and **Annex – 2** respectively).

6.2. The Board is also requested to authorize the Chairman to take consequential and incidental steps, as may be required, to give effect to the decision along-with making any subsequent changes to the reporting format.

Annex-1

This shall be notified at a later date.

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