Facilitating ease of doing business with respect to Business Responsibility and Sustainability Report (BRSR): Amendment to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and issuance of circular

1. **Objective**

1.1. This memorandum seeks the approval of the Board to facilitate ease of doing business for listed entities and their value chain partners with regard to requirements under BRSR on Environmental, Social and Governance (**ESG**) disclosures and its assurance, and introduction of voluntary disclosure on green credits, by way of amendment to the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("**LODR Regulations**") and issuance of a circular thereunder.

2. **(This has been excised for reasons of confidentiality).**

3. **Background**

3.1. An 'Expert Committee to facilitate ease of doing business' ("**Expert Committee**" or "**Committee**") was set up to inter-alia review the LODR Regulations and circulars thereunder regarding Business Responsibility and Sustainability Report (BRSR).

3.2. The Committee deliberated upon the suggestions received from the public pursuant to SEBI press release dated October 4, 2023, and submitted its report containing recommendations for facilitating ease of doing business with regard to BRSR.

3.3. A consultation paper dated May 22, 2024, along with report of the Expert Committee report, was issued and placed on the SEBI website for seeking public comments. (**Annexure I**). In response to the aforesaid consultation paper, 61 persons/ entities had responded, which included listed entities, industry associations, consultants, individuals and government bodies.

3.4. The public comments were discussed in the Expert Committee meeting held on June 18, 2024, based on which the Committee gave its final recommendations.

4. The following paragraphs describe the existing SEBI provisions regarding BRSR, recommendations of the Expert Committee, analysis of the public comments, final

recommendation of the Expert Committee (where applicable), rationale for acceptance / non-acceptance of the recommendations, and the final proposals for the consideration of the Board.

4.1. **Scope of Value Chain Partners**

4.1.1. **Existing Provisions:** In terms of SEBI circular dated July 12, 2023, ESG disclosures for the value chain are applicable to the top-250 listed entities (by market capitalization), on a "comply-or-explain" basis from Financial Year (FY) 2024-25. Further, limited assurance of the same is applicable on a comply-or-explain basis from FY 2025-26. For this purpose, value chain encompasses the top upstream and downstream partners of a listed entity, cumulatively comprising 75% of its purchases and sales (by value) respectively.

4.1.2. **Issue for Consideration:**

4.1.2.1. The Committee noted the current scope of value chain for ESG disclosures as mandated vide SEBI circular dated July 12, 2023. Based on data from various sectors, it was observed that the number of value chain partners for certain sectors were over 1000.

4.1.2.2. The Committee acknowledged that covering a large set of value chain partners may have an unintended impact on small businesses in terms of cost and compliance requirements.

4.1.3. **Initial Recommendation of the Expert Committee:**

4.1.3.1. To address the aforesaid issue, the Expert Committee proposed to cover those value chain partners who contribute significantly to the purchase and sales of the listed entity.

4.1.3.2. Thus, the following revised definition of value chain was recommended -

> "Value chain shall encompass the upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases and sales (by value) respectively."

4.1.4. **Alternative Proposal to Expert Committee's Recommendation:**

4.1.4.1. To facilitate further ease of doing business while still ensuring coverage of key value chain partners, the following definition of value chain was also proposed in the consultation paper:

"Value chain shall encompass the upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases and sales (by value) respectively, and cumulatively comprising at least 75% of the listed entity's purchases and sales (by value), respectively."

4.1.4.2. This alternative proposal aimed to bring down the maximum possible number of upstream/downstream value chain partners from 50 (as proposed by the Expert Committee) to 38.

4.1.5. **Summary of Public Comments:** The break-up of the comments received to the above proposals is as under. The details are provided in **Annexure-II.**

Sr. No.	Questions Asked in the Consultation Paper	Total Comments Received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in disagreement
1.	To redefine value chain partners as follows: Value chain shall encompass the upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases and sales (by value) respectively.	46	18	14	14
2.	To redefine value chain partners as follows: "Value chain shall encompass the upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases or sales (by value) respectively, and cumulatively comprising at least 75% of the listed entity's purchases or sales (by value), respectively."	44	12	16	16

4.1.6. **Final Recommendation of Expert Committee:** After considering the analysis of public comments that disagreed or partially agreed with the above proposals, and observing that the disagreements with the alternative proposal were largely due to misinterpretation issues, as detailed in **Annexure III**, the Committee recommended the following definition of value chain as:

"Value chain shall encompass the top upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases and sales (by value), respectively. However, the listed entity may limit disclosure of value chain to cover 75% of its purchases and sales (by value), respectively."

4.1.7. **Rationale for acceptance:** The rationale for acceptance of the final recommendation of the Committee is as under -

4.1.7.1. It would facilitate ease of doing business while mitigating greenwashing risks across key value chain partners of listed entities.

4.1.7.2. It would ensure that top value chain partners are included, while Small and Medium Entities ("**SMEs**") with minor contributions to purchase and sales shall not be covered. This will avoid undue compliance requirements and cost thereof.

4.1.8. **(This has been excised for reasons of confidentiality):**

4.1.8.1. It is proposed to defer ESG disclosures for value chain by one year for the following reasons:

i. It would provide further time to listed entities and their value chain partners to set up systems to measure and make ESG disclosure.

ii. It would further promote ease of doing business for SMEs, reduce compliance burden and boost economic activity in line with the government's objectives.

iii. It may be noted that one year relief on certain matters, like aspects related to value chain, is also provided in IFRS' sustainability standards, which are being adopted by various countries.

4.1.8.2. Further, "assessment or assurance" of ESG disclosures for value chain shall similarly be deferred by one year for aforesaid reasons.

4.1.9. **Proposal for consideration of the Board:**

4.1.9.1. It is proposed to revise definition of value chain as follows -

"Value chain shall encompass the top upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases and sales (by value), respectively. However, the listed entity may limit disclosure of value chain to cover 75% of its purchases and sales (by value), respectively."

4.1.9.2. Further, it is proposed to defer ESG disclosures for value chain, as well as "assessment or assurance" thereof, by one year. Hence, ESG disclosures for value chain shall apply from FY 2025-26 (as against the current requirement of FY 2024-25) and "assessment or assurance" thereof shall be applicable from FY 2026-27 (as against the current requirement of FY 2025-26).

4.2. **Voluntary Reporting of Previous Year Data**

4.2.1. **Existing Provisions:** In terms of SEBI circular dated July 12, 2023, ESG disclosures for value chain have to be provided by the top-250 listed entities (by market capitalization) on a comply-or-explain basis as per the format prescribed in BRSR Core, which seeks various environmental, social and governance data for the current and previous financial year.

4.2.2. **Issue for consideration:** Regarding reporting previous year numbers by value chain partners for the first year of disclosure, the Value Chain partners may require some time to set up processes and controls to gather the required data.

4.2.3. **Final Recommendation of the Expert Committee:** To address the aforesaid issue, the Committee recommended that reporting of previous year data may be voluntary for the first year of reporting.

4.2.4. **Summary of Public Comments:** The break-up of the comments received to the above proposal is as under. The details are provided in **Annexure II**.

Sr. No.	Questions Asked in the Consultation Paper	Total Comments Received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in disagreement
1	For the first year of reporting ESG disclosures for value chain, i.e. FY 2024-25, it may be clarified that reporting previous year numbers shall be voluntary.	32	27	3	2

4.2.5. **Rationale for acceptance:** After considering the analysis of public comments that disagreed or partially agreed with the above proposals, and subsequent views shared by the Expert Committee in its meeting held on June 18, 2024, as detailed in **Annexure III**, the rationale for acceptance of the recommendations is as under -

4.2.5.1. For disclosures made by listed entities for the first financial year of applicability of this provision, value chain partners may not have data for previous financial year.

4.2.5.2. Further, the value chain partners would require some time to set up processes and controls to gather the required data.

4.2.5.3. It may also be clarified that this relaxation applies to entities entering the top-250 listed entities by market capitalization for the first time. For such entities, reporting previous year numbers will be voluntary in their first year of disclosure under SEBI's ESG requirements.

4.2.6. **Proposal for consideration of the Board:** It is proposed to prescribe that for the first year of reporting ESG disclosures for value chain, reporting of previous year numbers may be voluntary. Hence, for value chain disclosures of FY 2025-26, reporting of previous year data (i.e., data for FY 2024-25) shall be voluntary.

4.3. <u>“Voluntary” instead of “Comply-or-Explain” Approach for ESG Disclosures for Value Chain</u>

4.3.1. **Existing Provisions:** In terms of SEBI circular dated July 12, 2023, ESG disclosures for the value chain are applicable to the top-250 listed entities (by market capitalization), on a comply-or-explain basis from FY 2024-25. Further, limited assurance of the same is applicable on a comply-or-explain basis from FY 2025 - 26.

4.3.2. **Issue under consideration:** As per multiple representations received by the Committee, it was observed that the listed entities may not be comfortable to be held non-compliant for data beyond their realm of verifiability/ reporting and be asked to offer an explanation when the readiness for reporting was not in place.

4.3.3. **Initial Recommendation of the Expert Committee:** To address the aforesaid issue, the Expert Committee in its report recommended that ESG disclosures for value chain, and assurance thereof, may be made as ‘voluntary’ rather than on ‘comply-or-explain’ basis.

4.3.4. **Summary of Public comments:** The break-up of the comments received to the above proposal is as under. The details are provided in **Annexure II.**

Sr. No.	Questions Asked in the Consultation Paper	Total Comments Received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in disagreement
1	“Voluntary” disclosures approach in place of “comply or explain” approach for ESG disclosures for value chain and assurance thereof.	42	18	7	17

4.3.5. **Final Recommendation of Expert Committee:** After considering the analysis of public comments that disagreed or partially agreed with the above proposals, as detailed in **Annexure III**, the Committee accepted the contention of those who disagreed with the proposal. Hence, the Committee suggested that the recommendation to move from 'comply-or-explain' to 'voluntary' ESG disclosures for value chain may not be taken up.

4.3.6. **Rationale for not pursuing the recommendation:** The rationale for not accepting the final recommendation of the Committee is as under –

4.3.6.1. Listed entities should not be held non-compliant for data beyond their realm of verifiability/ reporting and be asked to offer an explanation when the readiness for reporting is not yet in place for a large number of value chain partners of listed entities. Hence, a voluntary approach may be better than 'comply-or-explain'.

4.3.6.2. (This has been excised for reasons of confidentiality). A voluntary approach may reduce compliance requirements for SMEs and facilitate ease of doing business and in turn boost economic activity.

4.3.7. **Proposal for consideration of the Board:** It is proposed that providing ESG disclosures for value chain shall be "voluntary", instead of the present requirement of 'comply-and-explain'.

4.4. **<u>Disclosure of percentage of sales and purchase covered by value chain partners</u>**

4.4.1. **Existing Provisions:** In terms of SEBI circular dated July 12, 2023, ESG disclosures for the value chain are applicable to the top 250 listed entities (by market capitalization), on a comply-or-explain basis from FY 2024-25. For this purpose, value chain shall encompass the top upstream and downstream partners of a listed entity, cumulatively comprising 75% of its purchases and sales (by value) respectively.

4.4.2. **Issue under consideration:** In view of the proposed change in the aforesaid provision on coverage of value chain partners, there may be a challenge in comparability of ESG disclosures for value chain across listed entities, since different entities may report ESG disclosures for different percentage of their value chain.

4.4.3. **Additional Recommendation in Consultation Paper**

4.4.3.1. The report of the Expert Committee was also deliberated internally as well as by the SEBI ESG Advisory Committee (EAC). Pursuant to the same, in order to address the aforesaid issue, it was proposed in the consultation paper that the listed entity reporting ESG data for value chains shall also disclose the cumulative percentage of the listed entity's purchases and sales (by value) being reported – e.g. the reporting on value chain partner represents consolidated XX% of the total purchases and sales (by value).

4.4.3.2. This will help in analyzing, comparing, and benchmarking the disclosure of value chain partners across various listed entities.

4.4.4. **Summary of Public Comments:** The break-up of the comments received to the above proposal is as under. The details are provided in **Annexure II**.

Sr. No.	Questions Asked in the Consultation Paper	Total Comments Received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in disagreement
1	The listed entity shall disclose the percentage of total sales and purchases covered by the value chain (VC) partners for which ESG disclosure are provided.	34	24	3	7

4.4.5. **Rationale for acceptance:** After considering the analysis of public comments that disagreed or partially agreed with the above proposals, and subsequent views shared by the Expert Committee in its meeting held on June 18, 2024, as detailed in **Annexure III**, the rationale for acceptance of the recommendations is as under -

4.4.5.1. Currently, value chain encompasses the top upstream and downstream partners of a listed entity, cumulatively comprising 75% of its purchases and sales (by value) respectively. However, in view of the proposed revision in definition of value chain, different listed entities may report ESG data for different percentage of their total purchases or sales, depending on the contribution of their value chain. Hence, the proposed disclosure of sales and purchase covered by value chain partners would provide useful information for ESG rating providers, ESG mutual funds and other stakeholders for analysis of ESG disclosures for value chain of a listed entity.

4.4.5.2. It shall also facilitate comparison of ESG disclosures for value chain across listed entities, including a sector-specific comparison.

4.4.6. **Proposal for consideration of the Board:** It is proposed that if a listed entity provides ESG disclosures for value chain, then it shall disclose the percentage of total sales and purchases covered by the value chain partners respectively for which ESG disclosure are provided.

4.5. **<u>Voluntary Disclosure of Green Credits in BRSR</u>**

4.5.1. **Existing Provisions:**

4.5.1.1. With respect to disclosure of green credits, currently there is no specific provision prescribed by SEBI.

4.5.1.2. On February 22, 2024, Ministry of Environment, Forest and Climate Change of India ("**MoEFCC**") notified the methodology for calculation of green credit in respect of tree plantation. The notification inter-alia states: "The <u>Green Credit generated in lieu of tree plantation under the said Rules may be used for reporting under environmental, social and governance leadership indicator</u> or under corporate social responsibility under the applicable rules made under any law for the time being in force."

4.5.2. **Issue under consideration:** The aforesaid MoEFCC notification provides for reporting of green credits generated in lieu of tree plantation under ESG leadership indicator under applicable laws (such as BRSR). It is also noted that even besides tree plantation, the Green Credit Rules, 2023 allow for green credits to be generated or procured for various activities such as water management and sustainable agriculture.

4.5.3. **Final Recommendation of the Expert Committee:** The Committee recommended that the disclosure on green credits generated by a listed entity or their value chain partners may be added as a leadership indicator under Principle 6 of BRSR, i.e. "Business should respect and make efforts to protect and restore the environment". The Committee recommended that the same may be implemented subsequent to public consultation on the same.

4.5.4. **Summary of Public Comments:** The break-up of the comments received to the above proposal is as under. The details are provided in **Annexure II**.

Sr. No.	Questions Asked in the Consultation Paper	Total Comments Received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in disagreement
1	Addition of a leadership indicator under Principle 6 of BRSR, seeking disclosure on how many green credits have been generated (i) by the company, (ii) by the value chain partners.	43	18	14	11

4.5.5. **Rationale for acceptance:** After considering the analysis of public comments that disagreed or partially agreed with the above proposals, and subsequent views shared by the Expert Committee in its meeting held on

June 18, 2024, as detailed in **Annexure III**, the rationale for acceptance of the recommendations is as under -

4.5.5.1. The disclosure on green credits is in line with the steps taken by the Government of India, such as the Green Credit Scheme, 2023 and Global Green Credit Initiative, co-launched by India and the United Arab Emirates.

4.5.5.2. The proposed disclosure is voluntary in nature.

4.5.5.3. However, (This has been excised for reasons of confidentiality), it is proposed to modify the proposed disclosure to also include procurement of green credits by the listed entity and its top-10 value chain partners.

4.5.6. **Proposal for consideration of the Board:** It is proposed to mandate the following:

4.5.6.1. An additional leadership indicator in Principle 6 of BRSR seeking disclosures on green credits in the following format-

"How many Green Credits have been generated or procured:

i. By the listed entity
ii. By the top ten (in terms of value of purchases and sales respectively) value chain partners"

4.6. **<u>Substitution of the term "Assurance" with "Assessment or Assurance"</u>**

4.6.1. **Existing Provisions:**

4.6.1.1. SEBI circular dated July 12, 2023, mandates reasonable assurance for BRSR Core, beginning with top-150 listed entities (by market capitalization) from FY 2023–24 and gradually extended to the top-1000 listed entities by FY 2026–27.

4.6.1.2. Further, limited assurance of the ESG disclosures for value chain is applicable on a comply-or-explain basis from FY 2025-26.

4.6.2. **Issue for consideration:**

4.6.2.1. During the discussions with industry stakeholders, it has been observed that while BRSR Core data is accessible for third-party assessment, however, the usage of the term "assurance" has inadvertently resulted in unintended consequences, additional financial burdens and challenges for the industry. This is not in alignment with the regulatory intent of facilitating ease of compliance with the assessment of BRSR Core data.

4.6.2.2. The unintended consequences arise from the linkage of "assurance" with the financial audit domain, where terms like "reasonable assurance" carry specific implications.

4.6.2.3. According to the guiding principles of the International Organization of Securities Commissions (IOSCO), third-party assessment of sustainability-related corporate disclosures should remain independent of any specific profession. However, the use of the term "assurance" inadvertently aligns the standard with the audit profession. Thus, modification of references to "assurance" is deemed necessary to prevent unwarranted association with a particular profession.

4.6.2.4. A parallel can be drawn to SEBI's framework for social stock exchange, where the term "social audit" was replaced with "social impact assessment" to address industry concerns regarding the negative connotations associated with the term "audit."

4.6.2.5. Further, "assurance" is undertaken based on various global/ domestic standards that may contain requirements beyond mere verification of data, and thus impose cost burden and other challenges for corporates.

4.6.3. **Initial Recommendation of the Expert Committee**

4.6.3.1. The Committee recommended that with regards to BRSR, the term "assurance" be substituted with "assessment" in LODR Regulations and SEBI circulars on BRSR.

4.6.3.2. In other words, instead of current requirement of "reasonable assurance" of BRSR core and "limited assurance" for ESG disclosures for value chain, listed entities may be required to undertake "assessment" as per the standards as may be specified by the Industry Standards Forum (ISF) in consultation with SEBI.

4.6.3.3. Applicability:

i. Disclosures for FY 2023-24: Listed entities shall be provided with an option either to undertake "assessment" or "reasonable assurance" of BRSR Core disclosures for FY 2023-24.

ii. Disclosures for FY 2024-25 and onwards: Reasonable/ limited assurance will be substituted with “assessment”.

4.6.4. **Alternative Proposal to the Expert Committee Recommendation**

4.6.4.1. The following alternative proposal to the Committee’s recommendation was also included in the consultation paper issued by SEBI.

4.6.4.2. With regards to BRSR Core, the term “assurance” shall be substituted with “assessment or assurance”. The above shall come into effect from disclosures for FY 2023-24.

4.6.4.3. It was felt that the aforesaid alternative proposal shall provide flexibility to listed entities to undertake either assessment (which is cost-effective and not burdensome) or assurance (which may be requested by investors/ clients of listed entities). The option of undertaking assessment rather than assurance of ESG data shall facilitate ease of doing business, while offering flexibility to listed entities.

4.6.5. **Summary of Public Comments:** The break-up of the comments received to the proposals made in the consultation paper is as under. The details are provided in **Annexure II.**

Sr. No.	Questions Asked in the Consultation Paper	Total Comments Received	No. of Comments in agreement	No. of Comments in partial agreement	No. of Comments in disagreement
1	With regards to BRSR, the term “assurance” shall be substituted with “assessment” in LODR Regulations and SEBI circulars on BRSR.	49	19	11	19
2	With regards to BRSR, the term “assurance” shall be substituted with “assessment or assurance”.	39	20	6	13
3	Applicability: · Disclosures for FY 2023-24: Either to undertake “assessment” or “reasonable assurance” of BRSR Core. · Disclosures for FY 2024-25 and onwards: “Assurance” to be substituted with “Assessment”.	33	13	6	14
4	The proposed alternative (of undertaking either assessment or assurance) shall come into effect from disclosures for FY 2023-24.	27	11	5	11

4.6.6. **Final Recommendation of Expert Committee:** After considering the analysis of public comments that disagreed or partially agreed with the above proposals, as detailed in **Annexure III**, the Committee recommended the following–

4.6.6.1. "Assurance" shall be substituted with "assessment or assurance" in SEBI regulations and circulars on BRSR.

4.6.6.2. However, the above shall be applicable only from BRSR disclosures for FY 2024-25 and beyond.

4.6.7. **Rationale for acceptance:** The rationale for acceptance of the final recommendations of the Committee is as under -

4.6.7.1. Providing discretion to listed entities on undertaking either assessment or assurance shall facilitate ease of doing business where listed entities may either opt for assurance (which may be requested by investors/ clients of listed entities) or listed entities may opt for assessment (which is cost-effective and not burdensome).

4.6.7.2. With regards to applicability, since for FY 2023-24, listed entities have already published BRSR, along with reasonable assurance on BRSR Core, any change regarding assessment or assurance may be introduced for BRSR disclosures from FY 2024-25.

4.6.8. **Proposal for consideration of the Board:** It is proposed to -

4.6.8.1. Substitute "assurance" with "assessment or assurance" in LODR Regulations. This would be through amendments in LODR Regulations.

4.6.8.2. Further, by way of circular:

i. Replace "reasonable assurance" and "limited assurance" with "assessment or assurance".

ii. Clarify that "assessment" refers to third-party assessment undertaken as per standards that shall be developed by the Industry Standards Forum (ISF) in consultation with SEBI.

iii. Mandate that the above proposal shall be applicable for BRSR Core disclosures for listed entities and value chain from FY 2024-25 and FY 2026-27 onwards, respectively.

5. **<u>Proposal for consideration of the Board:</u>**

5.1. The Board is requested to consider and approve:

5.1.1. The proposal mentioned at paragraphs 4.6.8.1 above, which would require amendments to the LODR Regulations.

5.1.2. The proposals mentioned at paragraphs 4.1.9, 4.2.6, 4.3.7, 4.4.6, 4.5.6 and 4.6.8.2, which would be implemented by way of a circular.

5.2. The proposed amendments to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 are placed at **Annexure IV**.

5.3. The Board is requested to consider and approve the proposals as in the Memorandum and authorize the Chairperson to make consequential and incidental changes and take necessary steps to give effect to the decisions of the Board.

Date: December 6, 2024	**Yogita Jadhav**
Place: Mumbai	**General Manager**

Encls:

1. Annexure I (*Available on SEBI website*)
2. Annexure II (*Excised for reasons of confidentiality*)
3. Annexure III
4. Annexure IV (*Amendments shall be notified after following the due process*)

Annexure I

(Consultation paper is available on SEBI website www.sebi.gov.in at Reports & Statistics » Reports » Reports for Public Comments)

Annexure II

(This has been excised for reasons of confidentiality)

Annexure III

Proposal wise analysis of Public Comments along with views of the Expert Committee

1. Scope of Value Chain Partners

1.1. **Proposals:**

1.1.1. Committee's Proposal: To redefine value chain partners as follows: "Value chain shall encompass the upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases / sales (by value) respectively."

1.1.2. Alternative Proposal: To redefine value chain partners as follows: "Value chain shall encompass the upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases or sales (by value) respectively, and cumulatively comprising at least 75% of the listed entity's purchases or sales (by value), respectively."

1.2. **Public comments**: The entities who have either disagreed or partially agreed with the aforesaid proposals have contended the following-

1.2.1. There is a need of more clarity and sector-specific guidance on definitions and attributability regarding value chain as well as what shall constitute purchase or sales.

1.2.2. Complete value chain should be captured, i.e. 100%, for fair representation of Environmental, Social and Governance ("**ESG**") practices across an entity's value chain.

1.2.3. Comments specific to the Committee's Proposal:

1.2.3.1. Instead of 2% figure, disclosures should capture those value chain partners that contribute 1% / 5% / 10% or more to sales and purchases.

1.2.3.2. Alternatively, SEBI should instead consider top-10 upstream and downstream partners.

1.2.4. Comments specific to Alternative Proposal:

1.2.4.1. Cumulative coverage should be increased in staggered manner to reduce reporting burden.

1.2.4.2. Material ESG risks may exist outside the 75% value chain partners. In this context, given that listed entities have the discretion to select their value chain partners, it is advisable for them to disclose the reasons behind their choices within the 75% threshold.

1.2.4.3. Definition may be rephrased to align with the example provided in the consultation paper, i.e. maximum possible number of covered value chain partners shall be 38.

1.3. **<u>Views of Expert Committee</u>:** The public comments to SEBI consultation paper were discussed in the Expert Committee meeting held on June 18, 2024, and the views expressed by the Expert Committee are as follows:

1.3.1. With regard to the need for clarity and sector-specific guidance, it was noted that the Industry Standards Forum, comprising of Industry Associations under the aegis of Stock Exchanges, was inter-alia formulating standards for ease of compliance with requirements regarding ESG disclosures for value chain, based on feedback from industry and stakeholders, in consultation with SEBI.

1.3.2. With regard to the suggestion on including top-10 value chain partners, it was felt that the same may also involve Small and Medium Entities ("**SMEs**") or unlisted companies in case of listed entities with just a few major or concentrated value chain partners.

1.3.3. With regard to the public comment on mandating ESG disclosures for entire value chain of a listed entity, the Committee noted that the same may involve thousands of companies, including SMEs and unlisted companies. Given the infancy of ESG reporting for value chain and in view of facilitating ease of doing business, the same may not be mandated.

1.3.4. It was observed that 35 unique persons/ entities had responded on both of the above two proposals regarding reduction in coverage of value chain partners. Out of these, 10 respondents preferred the first proposal, while 10 preferred the second proposal. Moreover, 10 respondents opposed both proposals, while 5 agreed with both proposals.

1.3.5. However, many of those who disagreed with the second or alternative proposal had misinterpreted the proposal and opined that the same will increase the coverage of value chain partners, rather than decrease it, relative to the first proposal, whereas, as illustrated in the consultation paper, the second proposal shall lower the maximum possible number of value chain partners to 38, compared to 50 in case of the first proposal.

1.3.6. With regard to a possibility where a listed entity may try to avoid disclosure of value chain partners which has poor ESG profile, the Committee recommended that value chain partners shall be selected on the basis of top contribution to purchases/sales.

1.4. **Final Recommendation of Expert Committee:** In view of the above, to provide further clarity, the Committee recommended the following definition of value chain –

"Value chain shall encompass the top upstream and downstream partners of a listed entity, individually comprising 2% or more of the listed entity's purchases and sales (by value), respectively. However, the listed entity may limit disclosure of value chain to cover 75% of its purchases and sales (by value), respectively."

2. Voluntary Reporting of Previous Year Data

2.1. **Proposal:** For the first year of reporting ESG disclosures for value chain, i.e. FY 2024-25, it may be clarified that reporting previous year numbers shall be voluntary.

2.2. **Public comments**: The entities who have either disagreed or partially agreed with the proposal have contended the following-

2.2.1. The proposal to make previous year reporting voluntary for the first year of ESG disclosures for the value chain will result in inconsistent data across listed entities, making it difficult to compare and analyse the initial ESG performance.

2.2.2. SEBI should clarify whether the proposed relaxation is a transitory exemption applicable only during the first year of application, i.e. FY 2024-2025 or a first-time adoption exemption available to all entities during their first year of value chain disclosure.

2.3. **<u>Views of Expert Committee</u>:** The public comments to SEBI consultation paper were discussed in the Expert Committee meeting held on June 18, 2024, and the views expressed by the Expert Committee are as follows:

2.3.1. With respect to the contention that voluntary reporting of previous year data in ESG disclosures by value chain will make it difficult to compare data across listed entities, it was observed that such relaxation was only being granted for first year of reporting, i.e. FY 2024-25. Further, the relaxation was being provided only for disclosure of the previous year data, not for disclosure of current year data, which could be used for comparability.

2.3.2. With regard to the need for clarity on the relaxation, it was noted that the consultation paper had clearly stated that the same shall be "for the first year of reporting ESG disclosure for value chain, i.e. FY 2024-25".

2.3.3. In view of the above, the Committee recommended that the proposal be retained as-is.

3. "Voluntary" instead of "Comply-or-Explain" Approach for ESG Disclosures for Value Chain

3.1. **<u>Proposal</u>:** "Voluntary" disclosures approach in place of "comply or explain" approach for ESG disclosures for value chain and assurance thereof.

3.2. **<u>Public comments</u>**: The entities who have either disagreed or partially agreed with the proposal have contended the following-

3.2.1. In view of the proposed relaxations being offered in the consultation paper, including on coverage of value chain partners, further relaxation on 'comply-or-explain' approach may not be required.

3.2.2. Using a 'comply-or-explain' approach will enable better understanding of the entity's circumstances, enabling stakeholders to appreciate the challenges and barriers faced by listed entities in implementing ESG disclosures. Such context shall be absent in 'voluntary' approach.

3.2.3. These disclosures should be made mandatory with a prescribed glide path to ensure higher compliance and more reliable data.

3.2.4. Move from ‘comply-or-explain’ to ‘voluntary’ can be undertaken in a phased manner.

3.2.5. ‘Comply-or-explain’ approach is standard across several other global standards including in the European Union and the International Financial Reporting Standards (IFRS) Sustainability Reporting Standards.

3.3. **Views of Expert Committee:** The public comments to SEBI consultation paper were discussed in the Expert Committee meeting held on June 18, 2024, and the views expressed by the Expert Committee are as follows:

3.3.1. With regard to the contention on mandating ESG disclosures for value chain the Committee noted that in view of nascency of ESG disclosures and in order to not put undue compliance requirements on value chain partners of listed entities, these disclosures may not be mandated.

3.3.2. However, the Committee agreed with the rationale provided in other public comments regarding no need for further relaxation in view of other proposed relaxations regarding value chain; availability of context in ‘comply-or-explain’ disclosures; alignment with international standards.

3.4. **Final Recommendation of Expert Committee:** In view of the above, the Committee recommended that the proposed move from ‘comply-or-explain’ to ‘voluntary’ ESG disclosures for value chain may not be taken up, and the present requirement of ‘comply-and-explain’ based ESG disclosures for value chain may continue.

4. Disclosure of percentage of sales/ purchase covered by value chain partners

4.1. **Proposal:** The listed entity shall disclose the percentage of total sales and purchases covered by the value chain partners for which ESG disclosure are provided.

4.2. **Public comments**: The entities who have either disagreed or partially agreed with the proposal have contended the following-

4.2.1. Need for more clarity and sector-specific guidance, especially regarding financial institutions. Respondents requested explicit definitions and examples to aid in understanding the reporting obligations.

4.2.2. This disclosure shall be onerous for listed entities and entail reporting of sensitive commercial information.

4.2.3. Given the proposal on reduction in coverage of value chain partners, this further provision is not required, and the rationale for adding this provision is not clear.

4.2.4. Individual value chain partner's contribution to the total sales and/or purchases should also be disclosed by the listed entity.

4.3. **Views of Expert Committee:** The public comments to SEBI consultation paper were discussed in the Expert Committee meeting held on June 18, 2024, and the views expressed by the Expert Committee are as follows:

4.3.1. With respect to the contention that this proposal may not be required in view of the proposed reduction in coverage of value chain partners, it was observed that while the number of value chain partners for which ESG disclosures shall be provided has indeed been reduced, however, the number of value chain partners for which different listed entities may provide ESG disclosures may be different. Similarly, the percentage of sales or purchases covered by these value chain partners may also be different across listed entities. Hence, the proposed disclosure shall provide useful information to readers of the ESG disclosures for value chain.

4.3.2. Further, with regard to the need for clarity and sector-specific guidance, it was noted that the Industry Standards Forum, comprising of Industry Associations under the aegis of Stock Exchanges, was inter-alia formulating standards for ease of compliance with requirements regarding ESG disclosures for value chain, based on feedback from industry and stakeholders, in consultation with SEBI.

4.3.3. With regard to the contention that the proposed disclosure shall be onerous for listed entities, it was noted that ESG disclosures for value chain are not mandatory. In case a listed entity wishes to not provide

ESG disclosures for value chain, it need not disclose percentage of sales / purchase covered by value chain partners.

4.3.4. With regard to the contention that this disclosure shall include sensitive commercial information, it may be noted that the disclosure of percentage of sales/ purchase covered by value chain partners shall be sought on an aggregate basis. The proposal does not require disclosure of individual value chain partner's identity or its contribution to the total sales/ purchases of the listed entity.

4.3.5. Hence, the Expert Committee opined that the proposal may be retained as-is.

5. Voluntary Disclosure of Green Credits in BRSR

5.1. **Proposal:** Addition of a leadership indicator under Principle 6 of BRSR, seeking disclosure on how many green credits have been generated (i) by the company, (ii) by the value chain partners.

5.2. **Public comments**: The entities who have either dis-agreed or partially agreed with the proposal have contended the following-

5.2.1. The clause may be introduced once the green credit system gets matured in India. The methodology of measuring green credits is still in the nascent stage. There is need for detailed instructions on how to measure, verify, and report green credits.

5.2.2. Reporting may be limited only to listed entities, at least initially. It may be very difficult for value chain partners to obtain and report on green credits.

5.2.3. This disclosure shall put burden on reporting companies and goes against ease of doing business.

5.2.4. (This has been excised for reasons of confidentiality).

5.3. **Views of Expert Committee:** The public comments to SEBI consultation paper were discussed in the Expert Committee meeting held on June 18, 2024, and the views expressed by the Expert Committee are as follows:

5.3.1. The Committee agreed on the need to include both generation and procurement of green credits, (This has been excised for reasons of confidentiality).

5.3.2. However, with regard to the suggestion on including top-10 value chain partners, it was felt that the same may also include SMEs or unlisted companies in case of listed entities with just a few major or concentrated value chain partners.

5.3.3. The disclosure is being sought on a voluntary or leadership basis, hence listed entities need not disclose data on green credits, if the same is too onerous for the listed entity or its value chain, or if there has not been any generation or procurement of green credits.

6. Substitution of the term "Assurance" with "Assessment or Assurance"

6.1. **Proposals:**

6.1.1. Committee's Proposal:

6.1.1.1. With regards to BRSR, the term "assurance" shall be substituted with "assessment" in LODR Regulations and SEBI circulars on BRSR.

6.1.1.2. Applicability: Companies may undertake either "assessment" or "reasonable assurance" of BRSR Core for disclosures for FY 2023-24. However, from the next FY onwards, "assurance" to be substituted with "assessment".

6.1.2. Alternative Proposal:

6.1.2.1. With regards to BRSR, the term "assurance" shall be substituted with "assessment or assurance".

6.1.2.2. Applicability: This shall come into effect for disclosures for FY 2023-24 and onwards.

6.2. **Public comments**: The entities who have either disagreed or partially agreed with either or both of the aforesaid proposals have contended the following-

6.2.1. Respondents requested clear guidelines on the standards and procedures for assessments, since there are currently no global or domestic standards on "assessment".

6.2.2. Introducing assessment or assurance will be a burden on reporting entities and should be implemented after a few years.

6.2.3. Globally, assurance is widely acknowledged. Prescribing assessment instead of assurance may require companies to undertake both assessment (for regulatory compliance) and assurance (for global stakeholders), causing duplication of work and increased costs for companies.

6.2.4. Regarding the applicability of assessment, respondents noted that companies are already in advanced stages of preparing the BRSR report for FY 2023-24, making a change in requirements for FY 2023-24 unreasonable.

6.2.5. Some respondents prefer assurance for higher confidence in reported data. Assurance provides a higher level of scrutiny and verification, which enhances the credibility of the disclosed information.

6.2.6. SEBI should provide guidelines on eligibility and selection criteria for assessment providers.

6.3. **Views of Expert Committee:** The public comments to SEBI consultation paper were discussed in the Expert Committee meeting held on June 18, 2024, and the views expressed by the Expert Committee are as follows:

6.3.1. With regard to the need for clarity and guidance on assessment, including its definition, coverage, procedures, etc. it is noted that the Industry Standards Forum, comprising of Industry Associations under the aegis of Stock Exchanges, is inter-alia formulating standards for assessment, based on feedback from industry and stakeholders, in consultation with SEBI. The proposed standards can incorporate feedback from various stakeholders and balance the veracity of reported data with ease of compliance.

6.3.2. With regard to the regulation of assessment or assurance providers, the same may be taken up separately by SEBI.

6.3.3. It was observed that 61% of the respondents were in agreement or partial agreement with substitution of assurance with assessment. However, the same figure was 67% with respect to the alternative proposal of substitution of assurance with “assessment or assurance”. Hence, a greater majority of respondents (including, notably, a global assurance standards provider) have favoured giving listed entities the discretion to undertake either assessment or assurance, rather than doing away with assurance altogether.

6.3.4. Further, providing discretion to companies to undertake either assessment or assurance shall prevent duplication of efforts and reduce costs to companies. Companies shall be free to opt for assurance instead of assessment to cater to the global stakeholders, while other companies may opt for the low-cost and low-effort alternative of assessment.

6.3.5. However, with regard to the applicability of the above two proposals, the percentage of agreement or partial agreement was merely 58% and 59% respectively for the above two proposals. The main concern was regarding introduction of assessment for BRSR disclosures for FY 2023-24, which the respondents contented was too late given that certain BRSR disclosures were already released, and other companies may already be in advanced stages of their assurance mandates.

6.4. **Final Recommendation of Expert Committee:** In view of the above, the Committee recommended the following–

6.4.1. “Assurance” be substituted with “assessment or assurance” in SEBI regulations and circulars on BRSR.

6.4.2. However, the above shall be applicable only from BRSR disclosures for FY 2024-25 and beyond.

Annexure IV

(Amendments shall be notified after following the due process)