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ESG: Global Significance and Evolution in India

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_VO**IS Planet** portal primarily focuses on environmental sustainability covering various aspects: **Low carbon, Renewable energy usage** and **E-waste management.**

It is aimed at aggregating and helping co-create knowledge and information on environmentally responsive behaviours and concurrently pursuing result-oriented social media campaigns to encourage people and specifically the youth, to take proactive actions in promoting sustainable lifestyle and creating a positive impact on the environmental ecosystem in their surroundings

By: _VO**IS Planet**

Executive Summary

ESG is the most crucial and significant framework for the economies and societies across the globe. ESG encompasses the Environmental, Social and Governance factors imbibed by the corporations/companies in their business approach.

Globally the value instilled by ESG can be ascertained from the fact that net flows into ESG funds available to U.S. investors skyrocketed, totalling $20.6 billion in 2019, nearly four times the previous annual record set in 2018. In India, the significance of ESG is reflected in the fact that large number of companies, representing major chunk of market capitalisation, are voluntarily providing integrated and/or sustainability reporting. ESG performance has been becoming a vital criterion investment eligibility and institutional investors have been demanding ESG compliance, which has acted as a booster for disclosure

From, its origin in Europe and US, ESG as framework has permeated across the globe as major driving force for the business in contemporary time and future. Globally, today there are number of ESG frameworks and indices utilized for ESG reporting. Some of the leading international frameworks include: 1) Global Reporting Initiative standards; 2) Sustainability Accounting Standards Board (SASB) standards; 3) United Nations Principles for Responsible Investment; 4) and United Nations Sustainable Development Goals.

In India, the Business Responsibility and Sustainability Reporting (BRSR) has been made mandatory for the top 1000 listed companies (by market capitalization) with effect from the financial year 2022-2023, and it will replace the existing BRR (in place since 2012). Under the BRSR, key quantitative and qualitative disclosures are mandated along with other key disclosures, across the three parameters of environmental, social and governance.

The significance for engagement and understanding ESG lies in the fact the inherently, ESG issues are reputational, as more companies provide ESG disclosures and commitments, and given the speed of social media responses and the news cycle, observations about a company's ESG actions or inactions are often published and sometimes go viral. Companies that do not tow the line in sync with public opinion and market demands may experience unlikable reputational consequences.

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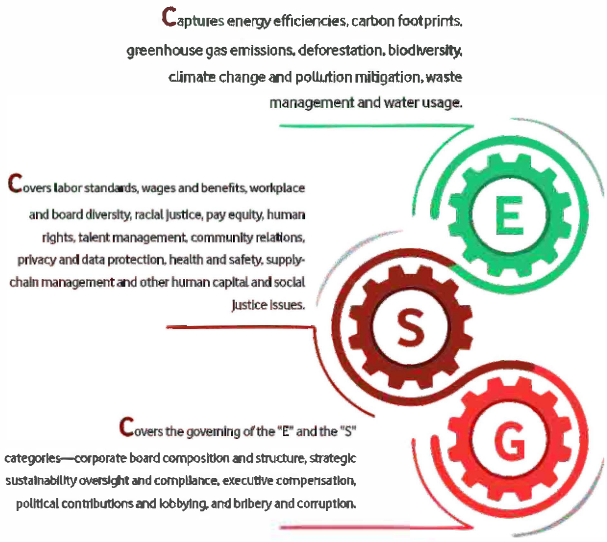
Introduction

ESG, the emerging and much touted framework across the globe, relates to the environmental, social, and governance parameters ingrained by the corporations/companies in their business approach. It provides means for evaluating companies with respect to a broad range of socially desirable ends by listing and detailing set of factors to measure the non-financial impacts of particular investments and companies.



The prominence of ESG framework can be understood from the fact that the investors and regulators have started focusing on evaluating businesses adopting sustainable pathways and the ESG framework. As a fruitful impact, ESG also provides a range of business and investment opportunities.

Globally the value instilled by ESG can be ascertained from the fact that net flows into ESG funds available to U.S. investors skyrocketed, totalling $20.6 billion in 2019, nearly four times the previous annual record set in 2018, while ESG funds in Europe also attracted record inflows of $132 billion in 2019. Further, it was found that approximately 70% of funds which had their focus on ESG investments, outperformed their counterparts in the first four months of 2020. Increasingly consumers and investors are placing a value on ESG. As a result, industry leaders have started responding in a number of ways, including: 1) issuing comprehensive sustainability reports; 2) expanding ESG disclosures in their annual reports; 3) providing information to ESG rating agencies; and 4) publicly communicating ESG commitments.

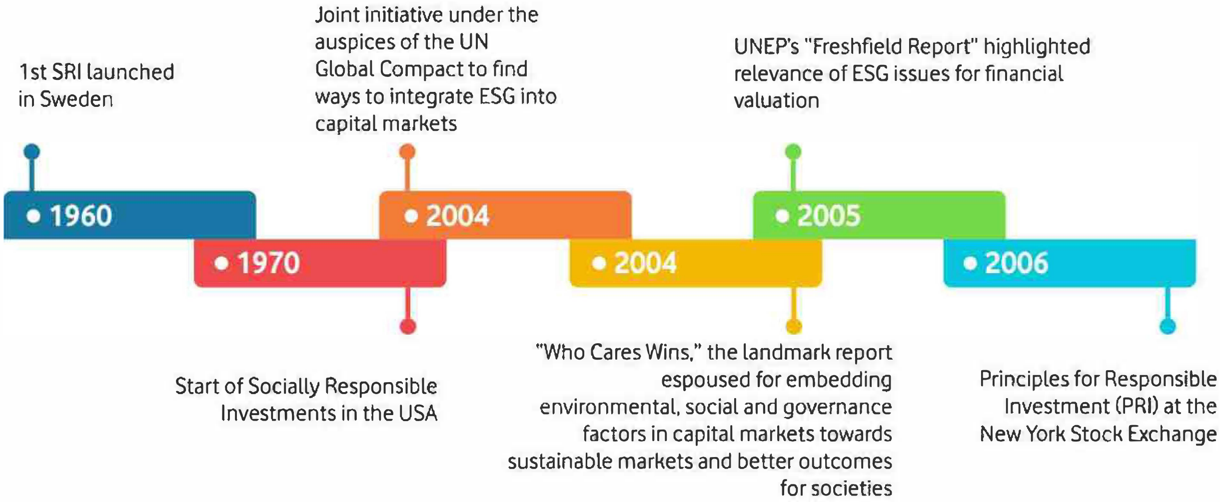
The growing significance of ESG in India is reflected in the fact that large number of companies, representing major chunk of market capitalisation, are voluntarily providing integrated and/or sustainability reporting. ESG performance has been becoming a vital criterion investment eligibility and institutional investors have been demanding ESG compliance, which has acted as a booster for disclosure.

In India, both regulatory as well as voluntary efforts have made ESG a focus area in recent years. There has been a steady growth in ESG disclosures by companies and an enhanced attention from institutional investors on ESG performance of companies. Currently, India being the sixth-largest economy, behind the U.S., China, Japan, Germany and the U.K has been amongst the focused countries for global investors. During the financial year 2020-21, India attracted highest ever total FDI inflow of US$ 81.72 billion and it is 10% higher as compared to the last financial year 2019-20 (US$ 74.39 billion).

In this backdrop, the ESG landscape has started evolving as global investors are increasingly demanding that businesses must focus on ESG impact and discharge their responsibilities cautiously. There has been an accelerated shift in investor stance, in favour of investing based on ESG performance of companies in India and worldwide.

This case study provides an overview of ESG origin, metrics, reporting standards, facilitating legal framework, reporting trends and practices in India.

Origin of ESG



ESG based investment philosophy has its roots in the United States and Europe set in 1960-70. In Europe, the first SRI fund was launched in Sweden in 1960s whereas socio-political movements in US led to start of socially responsible investments in 1970s.

The contemporary ESG based investing can be traced to former UN Secretary General Kofi Annan's correspondence in January 2004 to over 50 CEOs of major financial institutions, inviting them to participate in a joint initiative under the auspices of the UN

Global Compact to find ways to integrate ESG into capital markets. The report produced by this initiative titled "Who Cares Wins," made the case that embedding environmental, social and governance factors in capital markets makes good business sense and leads to more sustainable markets and better outcomes for societies. Simultaneously UNEP's "Freshfield Report" showed that ESG issues are relevant for financial valuation. Collectively these reports formed the backbone for the launch of the Principles for Responsible Investment (PRI) at the New York Stock Exchange in 2006 and the launch of the Sustainable Stock Exchange Initiative (SSEI) the following year.

Global ESG Reporting Standards

Currently there is no single global reporting standard for ESG disclosures. As a result, number of frameworks and indices have emerged to guide company disclosures and inform investors. Globally the leading international frameworks include: 1) Global Reporting Initiative standards; 2) Sustainability Accounting Standards Board (SASB) standards; 3) United Nations Principles for Responsible Investment; 4) and United Nations Sustainable Development Goals.

Globally, GRI (INGO founded in 1997) remains the most commonly used reporting standard or framework. Similarly, the Sustainability Accounting Standards Board (SASB) framework and International Standards Organization (ISO) standards are the preferred standards for sustainability reporting.

However, there are key differences in these reporting standards. For example, the GRI standards are stakeholder (and not shareholder) focused and require very detailed disclosures, Whereas SASB's standards apply to all companies, but unlike the GRI standards, they limit disclosure to 'financially material' issues only.

This visible complication was in discussion and efforts towards a common, global standard started few years back. In September 2020, it was reported that the GRI, SASB, CDP and the Integrated Reporting and Climate Disclosure Standards Board will aim to unify their respective standards. In that same month, a similar announcement was made by the Big 4 accounting firms. Finally, in November 2021, the IFRS Foundation announced the creation of the International Sustainability Standards Board, which aims to publish unified, global ESG disclosure standards in 2022.

Indian Scenario and The BRSR framework

The Indian corporate governance norms lay stress on stakeholder focussed approach to corporate governance. The National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business (NVGs) released in 2011 laid down the foundational philosophy of responsible business on the principle of accountability of business firms to all its stakeholders.

The Companies Act, 2013, requires that the director of a company act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of environment. The NVGs were upgraded and updated as the National Guidelines for Responsible Business Conduct (NGRBC) in 2019.

The top 500 listed companies by market capitalisation in India have been making disclosures, since 2012, through Business Responsibility Reporting (BRRs), based on business responsibility and sustainability indicators contained in the NVGs, as per the Securities and Exchange Board of India's directive.

On 10th May, 2021 Securities and Exchange Board of India (SEBI) came out with a circular on Business Responsibility and Sustainability Reporting by listed entities.

The circular details out that BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGBRCs) and reporting under each principle is divided into essential and leadership indicators.

The essential indicators are required to be reported on a mandatory basis while the reporting of leadership indicators is on a voluntary basis. Listed entities should endeavor to report the leadership indictors also.

The BRR based its ESG disclosure requirements on the nine sustainability principles from the MCA ESG Guidelines (often, as a Y/N questionnaire), resulting in inability for discerning meaningful ESG data. Whereas BRSR, built upon the framework of the MCA ESG Guidelines, incorporates international reporting frameworks like the GRI standards, and provides for both qualitative and quantitative data vis-a-vis ESG.

As per this circular, filing of BRSR shall be mandatory for the top 1000 listed companies (by market capitalization) with effect from the financial year 2022-2023, and shall replace the existing BRR. It further mentions that filing of BRSR is voluntary for the financial year 2021-22. The BRSR has to be a part of the annual report, which gets notified to the stock exchanges, published on official company websites, and separately provided to shareholders.

Key disclosures to be made by the companies in adherence to the BRSR reporting requirements are:

- The companies must disclose the ESG risks while also highlighting the mitigation strategy to overcome such troubles. Companies have to report the financial implications of the same further.
- Companies have to mention their goals related to sustainability and report performance on the same.
- Environment-related disclosures include waste management practices, biodiversity, the quantum of waste generation, and GHG (greenhouse gas) emissions.

- Disclosures related to the company's workforce include social diversity that should consist of measures for differently-abled employees and workers, gender diversity, safety, welfare benefits, median wages, occupational health, and turnover rates.
- Disclosures on social impact assessments for rehabilitation, resettlement, and CSR.
- Disclosure related to consumers' complaints such as product recall, product labeling, and complaints related to data privacy and cyber security

Significance of sustainability reporting vis-a-vis financial reporting becomes pertinent and timely need in the backdrop of India's third position in the emission of greenhouse gases after United States and China.

Brief of the ESG metrics and other key disclosures required by the BRSR are listed below

Subject Matter	KEY Disclosures
General	**Key quantitative and/ or qualitative KPIs:** • Principal business activities and products/ services. • Markets served, plants and offices (national and international), and types of customers. • Contribution of exports. • R&D and capex investments in technologies that improve ESG impacts. • Trade and industry affiliations. **Other key disclosures:** • Overview of material responsible business conduct issues. • Specific ESG commitments and performance. • External assessment/ evaluation of ESG policies.

Environmental	**Key quantitative and/ or qualitative KPIs:** • Material environmental impacts, risks and concerns. • Energy consumption and intensity. • Water consumption, intensity, withdrawal and discharge. • GHG emissions (scope 1 to 3) and projects for emissions reduction. • Plastics and waste management (including through 3Rs practices) and wastewater management. • Sustainable input sourcing. • Environmental impact assessments. • Extended producer responsibility. • Life cycle assessments. • Operations in ecologically sensitive areas and biodiversity impacts. • Compliance with environmental laws. **Other key disclosures:** • Business continuity and disaster management plan(s).
Social	**Key quantitative and/ or qualitative KPIs:** • Median remuneration and minimum wages. • Return to work and retention rates. • Union/ association memberships. • Occupational safety and health (OSH) matters, including risk assessments, reporting and corrective actions. • Safety incidents and corrective actions. • Human rights related risk assessments, diligence, corrective actions, grievance redressal and business process changes. • Trainings – on ESG, OSH, human rights, and skill upgradation. • Safety-linked product recalls. • Insurance, retirement, and other employee benefits. • Employee/ worker complaints and grievances, and protective mechanisms for complainants.

Social	• Rehabilitation and resettlement, and community grievances. • Social impact assessments and mitigating actions. • Customer/ consumer issues, including complaints, corrective actions, awareness, and feedback. • Product labelling. • Plastics and waste management (including through 3Rs practices) and wastewater management. • Sourcing from local/ small producers and marginalised/ vulnerable groups. • Beneficiaries of CSR projects. • Data privacy issues. **Other key disclosures:** • Framework/ policy on cyber security and data privacy risks
Governance	**Key quantitative and/ or qualitative KPIs:** • Anti-bribery/ corruption disciplinary sanctions involving directors and employees, and related corrective actions. • Conflicts of interest involving directors or KMPs, and related corrective actions. • Process for identifying and engagement with key stakeholders. **Other key disclosures:** • Anti-corruption/ bribery policies.

Growing Significance

Globally ESG as a philosophy to be ingrained in the existing business practice has been gaining traction. In August 2019, the Business Roundtable, a non-profit organization comprised of corporate CEOs, released a new Statement on the Purpose of a Corporation (the "BRT Statement"). The BRT Statement was signed by the CEOs of 181 leading U.S. companies and identified shareholders as one of five key stakeholders—along with customers, workers, suppliers and communities. The BRT statement list down key five statements encompassing all the ESG principles.

In the Indian business landscape, growing awareness and interest among investors has resulted in surge in assets under management (AUM) of domestic sustainable or environment social and governance (ESG) funds. Edelweiss Securities, brokerage firm, informed in its report that there are ten domestic ESG funds in India with AUM of Rs 11,800 crore as on June 2021, and out of these funds, eight were launched in the past one year.

In the contemporary scenario, when climate action and sustainability of the planet has been garnering the visibility across different media, ESG as a concept and framework has made its dent with worldwide influence on public opinion. Inherently, the ESG issues are reputational, as more companies provide ESG disclosures and commitments, and given the speed of social media responses and the news cycle, observations about a company's ESG actions or inactions are often published and sometimes go viral. Companies that do not tow the line in sync with public opinion and market demands may experience unlikable reputational consequences.

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