# Implementing Business Responsibility and Sustainability Reporting (BRSR)

Building a better working world

# Key takeaways on how to implement BRSR in India from the India Audit Committee Chairs Network (IACCN) meeting in December 2021

In May 2021, the Securities and Exchange Board of India (SEBI) introduced new Environment, Social, Governance (ESG) reporting requirements, the BRSR, for the top 1,000 listed companies by market cap. The disclosures are voluntary for FY 2021 - 22 and will be mandatory from FY 2022 – 23.

EY hosted the India Audit Committees Chair Network (IACCN) meeting on 2 December, 2021. The event included a keynote address by Mr. Amarjeet Singh, Executive Director, SEBI and a panel discussion on the importance, implications and challenges of implementing the requirements of the BRSR. The panel discussion was moderated by Mr. Sudhir Soni, Chartered Accountant and comprised the following:

- Mr. Amarjeet Singh: Executive Director, SEBI
- Ms. Naina Lal Kidwai: Audit Committee Member, Cipla Ltd., Max Financial Services Ltd. and Sustainability Committee Member, Holcim Ltd.
- Mr. D. Sundaram: Audit Committee Chair for Infosys Ltd., ACC Ltd, Crompton Greaves Ltd., GlaxoSmithKline Pharmaceuticals Ltd.
- Mr. Shankar Venkateswaran: Operating Partner & Head, ESG, ECube Investment Advisors Pvt. Ltd.
- Mr. Chaitanya Kalia: Partner and National Leader, Climate Change and Sustainability Services, EY India

## Keynote address

Mr. Singh called out the implications of the ongoing pandemic for the world of finance globally, and highlighted key requirements which include the need to:

- Reassess the quantum of development capital required, and its allocation
- Rethink whether current structures and instruments are sufficient to raise capital
- Review whether reporting frameworks are adequate to meet the needs of the changing times

It is expected that market forces are more potent than regulations to drive change and companies will need to reorganize priorities and gear business models towards Sustainable Development Goals (SDGs).

Sustainability related risks: These comprise three primary risks, namely, physical risks to assets; transitional risks from regulatory changes; and legal and technology risks as companies adjust to a low carbon economy, now and in the future.

Opportunities: The opportunities in sustainable investing are growing. While assets of the Global Sustainable Fund have quadrupled in the last 2 years, Asian and Indian markets have lately seen an increase in ESG product launches and new fund inflows. As of 30 September 2021, Indian mutual funds include 10 ESG themed equity funds and schemes. Of these, 8 were launched after January 2020 after the onset of COVID -19, an indicator of the growing opportunity in sustainable investing.

Trends: Worldwide regulators have so far encouraged voluntary disclosure of ESG performance. The EU, UK, Japan, Hong Kong, Singapore, New Zealand have announced mandatory disclosures in the next 2-3 years while the US SEC recently made known its intention to enhance focus on climate related disclosures. India has been ahead of the curve with respect to regulations in the sustainability space. SEBI introduced the mandatory BRR (Business Responsibility Reporting) in 2012 for the top 100 (by market cap) listed companies and extended this to the top 1, 000 companies in 2019. In 2017, the regulatory body also introduced voluntary adoption of Integrated Reporting for the top 500 companies.

## About BRSR

A committee that included SEBI was set up by the MCA (Ministry of Corporate Affairs) to revisit disclosures being made by corporates in terms of their sustainability performance. The BRSR framework emerged from the recommendations of this committee and extensive consultations with stakeholders and global organizations such as SASB (Sustainability Accounting Standards Board) and GRI (Global Reporting Initiative).

While the environmental aspect is an important part of the framework, the BRSR is developed based on 'National Voluntary Guidelines' and places significant stress on the social dimension to encourage corporates to continue to address the realities of social disparities and income inequalities in the country. Thus, it requires reporting on social metrics such as workforce diversity, employees' health and safety, employee engagement, social impact assessment of CSR projects among others.

## How is the BRSR different from the BRR?

The disclosures required under the latter are more qualitative in nature, whereas the BRSR emphasizes quantifiable metrics and has 300 data points across all areas. This allows for measurement and comparability across companies and industry sectors.

Among the key features of the BRSR:

- Disclosures are required under two categories: essential indicators and leadership indicators. The latter are voluntary, at present.
- Companies that already comply with reporting requirements of a globally established framework need to only provide a cross reference and not repeat the disclosures.

While reporting sustainability performance for the BRSR, companies are required to disclose whether they have a Board approved sustainability policy, disclose performance vis a vis the policy and provide a statement by a Board member on their sustainability priorities, goals, challenges and outlook.

## Panel Discussion

### SEBI's role in monitoring compliance to BRSR

SEBI's priority is to acclimatize companies to the requirements of the framework and to understand and address challenges with its implementation. Non-disclosure and misrepresentations of ESG performance will be a violation of the LODR (Listing Obligation and Disclosure Requirements), which may attract penal action.

### Which Board committee should own a company's sustainability agenda?

Being relevant to multiple aspects of a business, sustainability is part of the mandate of multiple Board committees. The ownership of a corporate's sustainability agenda is still evolving and varies across companies. While having a specialized ESG committee is not mandated in India, it was felt that having such committees comprising members with relevant skills and commitment to ESG should be the eventual goal.

Additionally, in a scenario in which there is multiple ownership of the sustainability agenda, it is important to ensure that Board members' key performance indicators reflect their responsibility to sustainability. Further, the choice of members of an ESG committee, both at the Board and executive level is crucial, as it is their commitment to sustainability that will drive it to become central to a company's functioning.

### The need for independent assurance of ESG performance

BRSR is a "statement of measures, metrics and milestones" of actions taken by a corporate. The 300 data points required by the framework should meet the test of *availability, accessibility, accuracy and auditability.* Given that the data reported is non-financial in nature and needs to be gathered from multiple sources, its reliability assumes great significance. Considering this, independent assurance is necessary, for a company to stand by the disclosures it makes.

Adding to this view, another panelist explained that the leadership indicators often lie beyond regular operational boundaries, and supply chain partners and the ecosystem often become sources of information. This, combined with the fact that companies do not have a single format or system to record data, makes it essential to have an independent entity's endorsement of the data to be reported. The participant was of the view that corporates are already looking into the process of assurance and look forward to embedding the process in sustainability reporting.

### The need for sectoral rules in the BRSR

As a first step, the participants felt that the NGRBC (National Guidelines for Responsible Business Conduct) which form the basis of the BRSR, must develop sectoral versions which the BRSR could build on, to reflect sustainability issues that are material to each sector. Sectoral reporting will likely enhance relevance and comparability of disclosures across organizations.

### How the ESG objective in CEOs' performance assessment is addressed

In light of the increasing importance of ESG for investors and the need for sustainability to be embedded in corporates' functioning, it is essential for CEOs and their teams to have "skin in the game" and for their performance assessment to include ESG parameters. The Nomination and Remuneration Committee of the Board must play a key role in operationalizing the assessment, such as deciding on weightage to sector specific metrics etc. Some organizations have already initiated this step.

## Point of view on leadership indicators of the BRSR become essential indicators

Recognizing that leadership criteria are difficult to measure, e.g., Scope 3 emissions, the leadership criteria are currently neither mandatory nor prioritized as immediate. This flexibility has been offered to facilitate a transition to more transparent and comprehensive disclosures, before considering shifting leadership criteria into the category of essential criteria.

It was noted that several leadership indicators relate to supply chain partners. Transitioning smaller partners to align with companies' sustainability agendas will be challenging and requires much effort and input, in terms of education, support and time. Considering this, placing supply chains in the leadership indicators is a positive move.

Participants also felt that larger companies could play a role in influencing compliance among smaller organizations which may be less ready to embrace the requirements voluntarily. However, large organizations alone cannot drive adherence and it is essential that all wheels of the economy move in the direction of sustainability, while taking into consideration the infrastructure in which SMEs operate.

## Companies' current state of preparation for the BRSR

Speaking from experience of supporting corporates to disclose sustainability performance, a panelist put forward the opinion that corporates in India take this requirement seriously as it is part of the LODR. While voluntary disclosures in FY 2021 – 22 may be limited, those who do make the disclosures will gain in preparedness and experience to meet the timeline of FY 2022 -23. On the specifics of readiness, companies are challenged by the lack of appropriate skills to meet this demand. This gap is currently filled by consulting and education service providers. Overall, the corporate sector is taking this new requirement in their stride and working to fulfil their obligation to it.

## Other comments

Specific to India, it is necessary to watch closely and align with global criteria to attract global investments. The MCA and SEBI must ensure convergence of what is required, because there are bound to be both local as well as global influences in developing criteria that enable conformity with BRSR requirements as well as with the demands of global investors.

There are numerous large unlisted private and public companies and government commercial organizations, whose operations impact social and environmental dimensions. Perhaps these organizations too must be asked to publish the same data on their websites.

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