CHAPTER 19

SUSTAINABILITY AUDIT; ESG RATING; EMERGING MANDATES FROM GOVERNMENT AND REGULATORS

MASTER CIRCULAR FOR ESG RATING PROVIDERS ("ERPS")

SEBI issued Master Circular for ESG Rating Providers ("ERPs"), dated May 16, 2024, Circular No: SEBI/HO/DDHS/POD3/P/CIR/2024/45, wherein it has encompassed the chapters on the following facets- Registration, Approval and Surrender Requirements; Rating Operations; Reporting and Disclosures; Internal Audit for ERPs and Miscellaneous matters.

Apart from various regulatory and operational dimensions covered in the mentioned Circular, it has stated that an ERP shall offer at least the following ESG rating products (Clause 5.2):

1. ESG Rating.
2. Transition or Parivartan Score.
3. Combined Score.
4. Core ESG Rating.
5. Core Transition or Parivartan Score.
6. Core Combined Score.

Further, an ERP may provide additional ESG rating products subject to compliance with relevant provisions of the CRA Regulations and circulars issued thereunder. It is to be noted that the aforesaid six ESG rating products shall:

i. suitably incorporate the environmental, social and governance aspects that are contextual to the Indian market.
ii. be assigned such that they allow comparison with companies in other sectors, i.e., such rating products must contain sector-agnostic ESG ratings.
iii. adhere to guidelines specific to the rating product as detailed below in this circular.

For details: https://www.sebi.gov.in/legal/master-circulars/may-2024/master-circular-for-esg-rating-providers-erps-_83421.html

Miscellaneous Changes

LESSONS	CHANGED CONTENTS	PAGE NUMBER
Lesson 2: Legislative Framework of Corporate Governance in India	**Principles governing disclosures and obligations – Regulation 4(2)(d)(iv).** The listed entity shall devise an effective vigil mechanism/ whistle blower policy enabling stakeholders, including individual employees and their representative bodies, to freely communicate their concerns about illegal or unethical practices.	70
Lesson 3: Board Effective ness/Building Better Boards	**Regulation 17 of SEBI (LODR) Regulations, 2015** Composition of the Board of Director – Regulation 17(1)(a) The composition of board of directors of the listed entity shall be as follows: (a) Board of directors shall have an optimum combination of executive and non-executive directors with at least one woman director and not less than fifty per cent. of the board of directors shall comprise of non- executive directors; Provided that the Board of directors of the top 1000 listed entities shall have at least one independent woman director by April 1, 2020;	122
	Minimum number of director in certain class of listed companies – Regulation 17(1)(c) The board of directors of the top 2000 listed entities shall comprise of not less than six directors.	122

	Directors and Officers insurance for Independent Directors- Regulation 25 (10) The top 1000 listed entities by market capitalization, shall undertake Directors and Officers insurance ('D and O insurance') for all their independent directors of such quantum and for such risks as may be determined by its board of directors.	141
	3. Regulation 19(4) read with Part D of Schedule II – (1) formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the board of directors a policy relating to, the remuneration of the directors, key managerial personnel and other employees; For every appointment of an independent director, the Nomination and Remuneration Committee shall evaluate the balance of skills, knowledge and experience on the Board and on the basis of such evaluation, prepare a description of the role and capabilities required of an independent director. The person recommended to the Board for appointment as an independent director shall have the capabilities identified in such description. For the purpose of identifying suitable candidates, the Committee may: **a.** use the services of an external agencies, if required;	145

	b. consider candidates from a wide range of backgrounds, having due regard to diversity; and **c.** consider the time commitments of the candidates.	
	Related Party Transactions – Regulation 23 of Under the SEBI (LODR) Regulations, 2015 (1A) Notwithstanding the above, with effect from July 01, 2019 a transaction involving payments made to a related party with respect to brand usage or royalty shall be considered material if the transaction(s) to be entered into individually or taken together with previous transactions during a financial year, exceed five percent of the annual consolidated turnover of the listed entity as per the last audited financial statements of the listed entity.	189
Lesson 4: **Board Processes through Secretarial Standards**	**Provisions under the SEBI (LODR) Regulations, 2015 Prior Intimations – Regulation 29** (1) The listed entity shall give prior intimation of at least two working days in advance, excluding the date of the intimation and date of the meeting to stock exchange about the meeting of the board of directors in which any of the following proposals is due to be considered:	
	Provisions under the SEBI (LODR) Regulations, 2015 Prior Intimations – Regulation 29	213

	(d) fund raising by way of issue of securities (excluding security receipts, securitized debt instruments or money market instruments regulated by the Reserve Bank of India), through further public offer, rights issue, American Depository Receipts/ Global Depository Receipts/Foreign Currency Convertible Bonds, qualified institutions placement, debt issue, preferential issue or any other method and for determination of issue price: Provided that intimation shall also be given in case of any annual general meeting or extraordinary general meeting or postal ballot that is proposed to be held for obtaining shareholder approval for further fund raising indicating type of issuance. Provided further that intimation for determination of issue price in a qualified institutions placement is not required if such placement is done in accordance with the provisions of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018. any alteration in the form or nature of any of its securities that are listed on the stock exchange or in the rights or privileges of the holders thereof; h) any alteration in the date on which, the interest on debentures or bonds, or the redemption amount of redeemable shares or of debentures or bonds, shall be payable.	

	(2) The intimation required under sub-regulation (1) shall mention the date of such meeting of board of directors. Point (3) not to be considered anymore.	
	3. Quorum [Para 3] **Regulations 17(2A):** The quorum for every meeting of the board of directors of the top 2000 listed entities with effect from April 1, 2020 shall be one-third of its total strength or three directors, whichever is higher, including at least one independent director.	216
Lesson 5: **Board Committees**	**B. The audit committee shall mandatorily review the following information:** (2) Omitted- Accordingly, the points covered under this topic stands renumbered.	243
	Risk Management Committee **Gap between two meetings – Regulation 21(3C)** The meetings of the risk management committee shall be conducted in such a manner that on a continuous basis not more than two hundred and ten days shall elapse between any two consecutive meetings.	249
	Risk Management Committee **Applicability – Regulation 21(5)** I. the top 1000 listed entities, and, II. a 'high value debt listed entity'.	249
Lesson 8: **Board Disclosures and Website Disclosures**	**I. ANNUAL REPORT** (f) For the top one thousand listed entities based on market capitalization, a Business Responsibility and Sustainability Report on	289

	the environmental, social and governance disclosures, in the format as may be specified by the Board from time to time.	
	Box Content: The assurance of the Business Responsibility and Sustainability Report Core shall be obtained, with effect from and in the manner as may be specified by the Board from time to time. Provided further that the listed entities shall also make disclosures and obtain assurance as per the Business Responsibility and Sustainability Report Core for their value chain, with effect from and in the manner as may be specified by the Board from time to time. Provided further that the remaining listed entities, including the entities which have listed their specified securities on the SME Exchange, may voluntarily disclose the Business Responsibility and Sustainability Report or may voluntarily obtain the assurance of the Business Responsibility and Sustainability Report Core, for themselves or for their value chain, as the case may be. Explanation: For the purpose of this clause: (i) Business Responsibility and Sustainability Report Core shall comprise of such key performance indicators as may be specified by the Board from time to time;	

	(ii) "value chain" for the listed entities shall be specified by the Board from time to time.	
	(5B) Senior Management Particulars of senior management including the changes therein since the close of the previous financial year.	293
	Items required to be hosted on website as per Regulation 62 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. (aa) composition of the Board; (b) financial information including: (i) notice of meeting of the board of directors where financial results shall be discussed; (ii) financial results, on the conclusion of the meeting of the board of directors where the financial results were approved; (iii) complete copy of the annual report including balance sheet, profit and loss account, directors report, corporate governance report etc; (h) information with respect to the following: (iii) revision of rating assigned to the non-convertible debt securities: (stands deleted) (i) all credit ratings obtained by the entity for all its listed non- convertible securities, updated immediately upon any revision in the ratings; (j) statements of deviation(s) or variation(s) as specified in sub- regulation (7) and sub-regulation (7A) of regulation 52 of these regulations;	

	(k) annual return as provided under section 92 of the Companies Act, 2013 and the rules made thereunder. The listed entities to whom regulations 15 to regulation 27 are applicable shall also make the following additional disclosures on their website: (a) composition of the various committees of the board of directors; (b) terms and conditions of appointment of independent directors; (c) code of conduct of the board of directors and senior management personnel; (d) details of establishment of vigil mechanism/ whistle blower policy; (e) criteria of making payments to non-executive directors, if the same has not been disclosed in the annual report; (f) secretarial compliance report as per sub-regulation (2) of regulation 24A of these regulations; (g) policy on dealing with related party transactions; (h) policy for determining 'material' subsidiaries; (i) details of familiarization programmes imparted to independent directors including the following details:- (i) number of programmes attended by the independent directors (during the year and on a cumulative basis till date),	

	(ii) number of hours spent by the independent directors in such programmes (during the year and on cumulative basis till date), and (iii) other relevant details. The listed entity shall update any change in the content of its website within two working days from the date of such change in content.	
Lesson 19: Sustainability Audit; ESG Rating; Emerging Mandates from Government and Regulators	**ESG Reporting in India** **Para 8:** On 10 May 2021, SEBI introduced new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report ("BRSR") by amending regulation 34 (2) (f) of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 ("LODR Regulations"). Further, SEBI, on July 11, 2023, issued a Master Circular No. SEBI/HO/CFD/PoD2/CIR/P/2023/120 in order to enable the users to have access to the provisions of the applicable circulars issued till June 30, 2023, at one place, pertaining to the compliance requirements specified in the LODR Regulations. With the issuance of this Master Circular, the aforementioned SEBI circular dated 10th May, 2021 has been rescinded. Section IV-B of this Master Circular prescribed the requirements for Business Responsibility and Sustainability Reporting by listed entities. The format of the BRSR is specified in Annexure 16 to this Master Circular and the guidance note is given at Annexure 17 to enable	759

	the companies to interpret the scope of disclosures.	
Lesson 20: Integrated Reporting Framework; Global Reporting Initiative Framework; Business Responsibility and Sustainability Reporting	**Overview and Applicability of BRSR (as on the 31 st March of every financial year)- stands deleted.** During the financial year 2021–22, the top 1000 listed entities may voluntarily submit BRSR in place of mandatory BRR; The remaining listed entities including the entities which have listed their specified securities on the SME Exchange, may voluntarily submit BRSR. On 10th May, 2021 SEBI issued another Circular No. SEBI/HO/CFD/CMD-2/P/CIR/2021/562 providing the Applicability of BRSR and Disclosure format.	769