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MODULE 1 | DEC 25/JUNE 26

ESG

summary notes

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CHAPTER 12

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Ch 12 - Board's Accountability on ESG

1) The IFC defines ESG as a set of environmental, social & governance factors which are considered by the companies when making their decisions regarding mgmt & by the investors when making investment decisions in respect of the risk & opportunities relating to it.

2) For the purpose of setting accountability on the board many companies have now voluntarily adopted the practice of forming ESG committee, for instance Bharti Airtel, Infosys have Board level ESG committees.

3) The term of referrence of the committee includes:
a] Identifying the ESG targets
b] Identifying the ESG risks / opportunities
c] Preparing for the risk mitigation strategies
d] Effective oversight.

* What Constitutes E, S, G

Environmental - Climate change / Pollution / GHG Emissions

Social - Health & safety / Human rights policy / child labour

Governance - Board Independence / composition / diversity / Risk Governance / Ethics & Compliance.

* Accountability of Board on E, S, G :-

The accountability of the Board is threefold:

1. Integration of ESG into strategy / policy / oversight & value creation. :-

2. • As per a survey conducted by Deloitte "Chair of the future - India perspective", it is believed that the future board would see a very big transition which may include the future board being much younger, non-traditional, diverse & should be appointed on the basis of 'what they know' & not 'who they know'.

• To make it more effective & accountable they should be able to ask questions as to the organisation's ability to lower the carbon emission, removal of waste from the supply chain, impact upon climate as well as the same questions across their supply chain.

• The Board must create company purposes which are:

(a) Inspiring in creating value for its stakeholders
(b) Looks upon both but focuses more on the long-term financial results.

• Integration of ESG involves:

(a) Identifying ESG goals
(b) Alignment of vision, mission of the corporates with ESG goals.
(c) Alignment of ESG goals into long-term & short term strategies.
(d) Establishment of ESG oversight mechanism.
(e) Forming policies on ESG matters.

• Recently, the companies have started using mgmt system for quality control in which ESMS is being used by the businesses to swiftly integrate the ESG practices in the overall functioning.

• The ESMS framework provides for step by step instructions as to how to develop & implement mgmt system to address the common ESG issues.

• It identifies 9 elements of effective ESMS:

a] Policy
b] Identification of Risks & Impacts
c] Management Programs
d] Organizational Capacity and Competency
e] Emergency Preparedness and Response
f] Stakeholder Engagement
g] External communications and Grievance mechanisms
h] Ongoing Reporting to Affected communities
i] Monitoring and Review.

2. Identification of ESG Risks and Opportunities:

• One of the biggest risk considered by the Indian companies is climate risk & India being one of the most vulnerable countries to climate change, ESG could be one of the possible solution integrating wherein, it could be placed at the top risks of the company & the board would be expected to consider the same in all the business risks & strategies & integrating the same into ERM.

3. ESG Reporting

• India reports its sustainability practices through BRSR reporting framework which is mandatory on the top 1000 listed entities and can be adopted voluntarily by the other entities.

• The Guidance note for BRSR covering the requirement on ESG matters on the part of Board are as follows:

1] Specific commitments / Goals / Targets set by the entity :-
Under this field entity may disclose upon the following:
(a) Baseline goals and targets
(b) Expected timeline for acheiving those goals and targets
(c) Whether such goals are mandatory / voluntary, if mandatory then the relevant legislation.

2] Statement by Director responsible for the report to highligh ESG issues :-
(a) overall vision of the organisation in managing environmental & social impact for short / medium / long term.
(b) Key events / acheivements / failures during the reporting period.
(c) His views on performance of org
(d) main challenges for the organisation

3] Highest Authority Responsible for implementation and oversight :-
(a) If the highest executive authority is a committee then its composition shall be disclosed.
(b) In case of individual being highest authority name & designation shall be disclosed.

4] Does the entity have a committee / Director responsible for decision making on sustainability matters :-
(a) The entity should indicate 'Yes' or 'No'
(b) In case of committee disclose its composition.
(c) In case of individual / authorised director his DIN / name / designation shall be disclosed.

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* Refer HCL case - from book.