

QUESTION BOOK

ESG

CHAPTER 12:

BOARD'S

ACCOUNTABILITY ON

ESG

QUESTION 1:

Discuss the impact of Global ESG frameworks and rating agencies on Indian Corporations in 2022-23 with suitable example. **(JUNE 2024) (5 MARKS)**

Ans:

- (a) Global ESG frameworks and rating agencies have a strong impact on Indian companies. They influence reporting standards, investor decisions, and internal policies.
- (b) Following are the Impacts of Global ESG Frameworks and Rating Agencies on Indian Corporations in 2022–23:
 - (i) Alignment with Global Standards: Indian companies began following international frameworks like GRI, ISO 26000, and UN SDGs. SEBI introduced BRSR Core for the top 1000 listed companies, making ESG reporting more structured and aligned with global norms. This improved transparency and accountability, helped firms identify ESG risks and improve compliance.
 - (ii) Role of ESG Rating Agencies: Global rating agencies such as MSCI, Sustainalytics and Bloomberg started evaluating Indian companies based on ESG risks and performance. Companies with high ESG ratings generally attract more foreign investment. This resulted in improved governance in firms, reduced carbon emissions, and enhanced social responsibility.

- (iii) Examples of Indian Companies
 1. Infosys: Adopted carbon neutrality, received strong ESG ratings.
 2. Tata Steel: Focused on green initiatives and responsible sourcing.
 3. Reliance Industries: Invested in clean energy and improved ESG disclosures.
- (iv) Business Benefits
 1. Improved access to capital
 2. Better brand image
 3. Stronger employee and stakeholder trust
 4. Cost savings through efficient energy and waste management

In 2022–23, global ESG frameworks and rating agencies pushed Indian companies to improve sustainability, governance, and social practices. This shift not only helped them meet global standards but also brought long-term business benefits.

QUESTION 2:

Convexa Ltd. is a closely held cement manufacturing company with eight factories located across India. The promoter shareholders of the Company were planning to dilute their stake in the equity holding and were looking for suitable buyers. For the purpose of proposed sale of stake, they appointed Mike and Co LLP, as consultants. The promoters who were also on the Board of the Company, were keen to divest their shares to foreign investors and asked the consultants to develop a road map for transitioning the Company and its processes as per global benchmarking. The consultants highlighted that given the current scenario, the Environment, Social, Governance (ESG) is assuming significant importance both globally and in India and it also casts higher responsibility on the Board of Directors of the Company. The promoters were keen to align the Company's practices with best practices as per the ESG framework. As a part of the consultant's team, prepare a detailed questionnaire about the Board's accountability on ESG aspects. (5 MARKS) (DEC 2024)

Ans:

- (a) As the promoters plan to dilute their holding and preferring diversifying it overseas it requires a shift towards better ESG framework.
- (b) In this context the following questions may be raised on accountability of Board on ESG:
 1. With respect to Board Composition/Committees:
 - (i) Whether the Company has diversified Board including an ESG expert as Board member?

- (ii) Whether the Board has constituted an exclusive committee for identifying ESG risks and opportunities?
2. With respect to Policies and Strategies:
- (i) Whether the company has ESG Goals and targets?
 - (ii) If yes, whether the Company's vision/mission/values as aligned with ESG Goals?
 - (iii) Whether ESG is integrated into business models?
 - (iv) Whether the company has policies on ESG matters on non-mandatory matters?
 - (v) Whether the company has extended the ESG practices to supply chain also?
 - (vi) Whether the Board, Senior Management and employees are sensitised with various ESG issues?
 - (vii) Whether ESG targets are set for Board/Senior management?
 - (viii) Whether Enterprise Risk Management System addresses ESG related risks?
 - (ix) Whether ESG issues are taken into consideration for investment decision?
3. With respect to Reporting:
- (i) Whether the Company discloses ESG related matters as per regulatory prescriptions?
 - (ii) Whether the company discloses critical ESG issues voluntarily beyond what is prescribed?
 - (iii) Does the company follow global standards for ESG reporting?
- (c) If these questions are addressed affirmatively there shall be higher chances of attracting foreign investors and that too at a better valuation.