

Section-E

**Recent Developments in Financial
Reporting**

Recent Developments in Financial Reporting

7

This Module Includes

- 7.1 4P Bottom Line Reporting**
- 7.2 Sustainability Reporting and Global Reporting Initiative**
- 7.3 Business Responsibility and Sustainability Report**
- 7.4 Integrated Reporting**
- 7.5 Corporate Social Responsibility Reporting in India**
- 7.6 Environmental, Social and Governance (ESG)**
- 7.7 Human Resource Reporting**
- 7.8 Value Added Statement**
- 7.9 Economic Value Added and Market Value Added**
- 7.10 Reporting through XBRL (eXtensible Business Reporting Language)**
- 7.11 Quarterly Earnings Call Management**

Recent Developments in Financial Reporting

SLOB Mapped against the Module

To expose students to the contemporary research and developments on corporate financial reporting from the viewpoint of all the stakeholders in global context beyond the boundary of Ind AS.

Module Learning Objectives

- ⦿ To provide a basket of all other reporting formats relevant for all the stakeholders
- ⦿ To expose the students to the role of accounting in recognizing responsibility and accountability of the entity towards the planet earth and towards the society.
- ⦿ To update the knowledge base of the students to the new dimensions of financial and non-financial reporting in the changing technological, ecological, social and spiritual environment.

Financial Reporting of corporate entities are regulated by the laws of the country and guided by the GAAP of the country and by the adopted or converged IFRS. These are general purpose financial reporting focused primarily to serve the interest of the shareholders and other investors. In addition to these mandatory financial reporting there are many other formats of reporting relevant for all the stakeholders including investors. The status of these other formats of reporting is mostly voluntary and informal barring a few exceptions. In this module the basket contains the following reporting formats, contents of which are partly overlapping:

- 4P Bottom Line Reporting
- Sustainability Reporting and GRI
- Business Responsibility Reporting
- Integrated Reporting
- CSR Reporting in India
- Environmental, Social and Governance (ESG)
- Human Resource Reporting
- Value Added Statement
- Economic Value Added and Market Value Added
- Reporting through XBRL (eXtensible Business Reporting Language)
- Quarterly Earnings Call Management

4P Bottom Line Reporting

7.1

4P Bottom Line or Quadruple bottom line (QBL) reporting is an extension of 3P bottom line or triple bottom line (TPL) reporting.

The phrase “triple bottom line” was first coined in 1994 by John Elkington, the founder of a British consultancy called ‘Sustain Ability’. He further articulated the concept in his 1997 book ‘Cannibals with Forks: The Triple Bottom Line of 21st Century Business’.

The concept of ‘Triple bottom line’ incorporates two technical terminologies – ‘Triple’ and ‘Bottom Line’. We first understand these two for better understanding of the concept of Triple bottom line reporting.

- **Bottom Line:** In traditional accounting and common parlance, the “bottom line” refers to either the “operating result”, which is usually recorded at the very last line (or, bottom) of the income statement. Over the last few decades, environmentalists and advocates of social justice have been challenged to introduce a broader concept of ‘bottom line’ into public consciousness by introducing full cost accounting.
- **Quadruple:** The Quadruple bottom line concept requires an organisation to measure and report on four dimensions viz. social, environmental, economic/ financial and spiritual performance of the organisation.

For example, a leather tanning firm may report a financial profit, but their output may cause adverse health effect, and pollute the nearby water reserves; and the government may end up spending the taxpayer money on health care and environmental clean-up. Now the question that arises in the mind of the proponents of full-cost accounting is ‘How do we perform a full societal cost benefit analysis?’ in this respect, the 4P bottom line adds three more “bottom lines”, namely, people (social) and planet (environmental/ecological) and purpose (spiritual) concerns.

Thus, the concept of ‘4P bottom line’ consists of four dimensions, namely ‘social equity’, ‘economic’, ‘environmental’ and ‘spiritual’ factors. In other words, the quadruple bottom line (QBL) consists of three Ps: profit, people, planet and purpose. It aims to measure the financial, social, environmental and spiritual performance of the corporation over a period of time. At its core, 4P bottom line thinking ties the social and environmental impact of an organization’s activities to its economic performance. Thus, it is also referred to as “QBL,” “4PBL,” “People, Planet, Profit and Purpose”.

Concept of 4P Bottom Line Reporting

Quadruple bottom line reporting (QBLR) expands the traditional reporting framework to take into account social and environmental and spiritual performance in addition to financial performance. The concept of 4P bottom line reporting states that reporting should incorporate the social, environmental, financial and spiritual performance of an organization.

QBL reporting refers to the publication of economic, environmental and social and spiritual information in an integrated manner that reflects activities and outcomes across these three dimensions of a company’s performance. They are discussed hereunder:

- ⊙ The first bottom line happens to be the bottom line of the “income statement” (which is the traditional measure of operating result).
- ⊙ The second bottom line is that of an organisation’s “people account” (a measure in some shape or form of how socially responsible an organisation has been throughout its operations); and
- ⊙ The third bottom line is that of the organisation’s “planet account” (which measures how environmentally responsible the company has been).
- ⊙ The fourth bottom line lifts business activities to a sacred form. The fourth bottom line is measured by how much more loving, understanding, happy, joyful, in touch with their destiny, deeper relationship or partnership with god or higher powers the person has become, while performing their business responsibilities. And as these qualities are acquired they are infused back into one’s own business activities

The fourth bottom line relate business with happiness of stakeholders. That is when the question of why one is doing business becomes relevant.

The first bottom line deals with the what. “What do I get?” is usually measured by money. The second and third bottom lines deal with whether one is doing business without hurting people and the environment. The Fourth Bottom Line has to do with why. With the fourth bottom line, commerce/business becomes a spiritual path. The concept introduces the fourth bottom line as being a way to utilize core business principles to factor in compassion, for example by being compassionate to the customers and hence developing value for the business in an altruistic way.

The benefits emerging from 4P bottom line reporting are discussed hereunder:

- ⊙ **Enhancement of reputation and brand:** Corporate reputation is a function of the way in which a company is perceived by its stakeholders. Effective communication with stakeholders on one or more of the environmental, social, and economic dimensions can play an important role in managing stakeholder perceptions and, in doing so, protect and enhance corporate reputation.
- ⊙ **Securing a social license to operate:** A ‘license to operate’ is not a piece of paper, but informal community and stakeholder support for an organisation’s operations. Business is increasingly recognising the link between ongoing business success and its ‘license to operate’, especially in the resources sector. Communication with stakeholders is often critical to securing and maintaining a ‘license to operate’. Communities and stakeholders generally, are likely to be more supportive of companies that communicate openly and honestly about their management and performance in relation to environmental, social and economic factors.
- ⊙ **Attraction and retention of high calibre employees:** Existing and prospective employees have expectations about corporate environmental, social and economic behaviour, and include such factors in their decisions regarding working for an organisation.. The publication of TBL-related information can play a role in positioning an employer as an ‘employer of choice’ which can enhance employee loyalty, reduce staff turnover and increase a company’s ability to attract high quality employees.
- ⊙ **Improved access to investor market:** A growing number of investors are including environmental and social factors within their decision-making processes. The growth in socially responsible investment and shareholder activism is evidence of this. Responding to investor requirements through the publication of TBL-related information is a way of ensuring that the company is aligning its communication with this stakeholder group, and therefore enhancing its attractiveness to this segment of the investment market.
- ⊙ **Establish position as a preferred supplier:** Obtaining a differentiated position in the market place is one way to establish the status of preferred supplier. Effectively communicating with stakeholder groups on environmental, social and economic issues is central to obtaining a differentiated position in the market place.

- ⊙ **Reduced risk profile:** There is an expanding body of evidence to suggest that performance in respect of economic, social and environmental factors has the capacity to affect the views of market participants about a company's exposure to, and management of risk. TBL reporting enables a company to demonstrate its commitment to effectively managing such factors and to communicate its performance in these areas. A communication policy that addresses these issues can play an important role in the company's overall risk management strategy.
- ⊙ **Identification of potential cost savings:** TBL reporting often involves the collection, collation and analysis of data on resource and materials usage, and the assessment of business processes. For example, this can enable a company to better identify opportunities for cost savings through more efficient use of resources and materials.
- ⊙ **Increased scope for innovation:** The development of innovative products and services can be facilitated through the alignment of R&D activity with the expectations of stakeholders. The process of publishing TBL reporting provides a medium by which companies can engage with stakeholders and understand their priorities and concerns.
- ⊙ **Aligning stakeholder needs with management focus:** External reporting of information focuses management attention on not only the integrity of the data but also the continuous improvement of the indicator being reported.
- ⊙ **Creation of sound basis for stakeholder dialogue:** Publication of TBL reporting provides a powerful platform for engaging in dialogue with stakeholders. Understanding stakeholder requirements and alignment of business performance with such requirements is fundamental to business success. TBL reporting demonstrates to stakeholders the company's commitment to managing all of its impacts, and, in doing so, establishes a sound basis for stakeholder dialogue to take place.
- ⊙ **Altruism and happiness of the stakeholders:** The 4th P 'Purpose' makes business contribute to one's spirituality by serving a unique purpose in addition to financial, social, and environmental returns.

Usually, in making a business profitable and making it adhere to social and environmental responsibilities, one forgets to ask, why is one doing this in the first place?

Does the company contribute in any way to stakeholders' happiness, align with their values and beliefs, or assist towards their personal growth?

In addition to the benefits obtained through superior relationships with key stakeholder groups, the decision to be publicly accountable for spiritual, environmental and social performance is often recognised as a powerful driver of internal behavioural change. The availability of relevant information on economic, environmental and social performance that previously may not have been collected and evaluated in a readily understood manner may enable executives to identify and focus attention on specific aspects of corporate performance where improvement is required.

Prerequisites of implementation of QBL Reporting

QBL reporting would be of little relevance to the reporting company or its stakeholders if it is not **aligned to the company's overall business strategy**. A decision to move to full TBL reporting should not be taken lightly. It must have **senior management endorsement and commitment**, as it may have major resource implications, and a half-hearted approach is likely to be worse than not adopting it all.

Strategy for implementation

Critical issues for consideration in the development and implementation of TBL reporting include:

- ⊙ clear definition of the role of QBL reporting in driving strategic business objectives;

- ◉ establishment of the resource and cost requirements;
- ◉ awareness of associated legal implications; and
- ◉ understanding the risks involved in publishing QBL information.

Key Challenges for Implementation

The key challenges for implementation of QBL reporting framework are:

- ◉ Awareness of relevant issues associated with QBL reporting;
- ◉ Understanding stakeholder requirements;
- ◉ Aligning QBL reporting with objectives and risks; and
- ◉ Determining and measuring performance indicators.

A number of options, ranging from the inclusion of minimal QBL-related information within statutory reporting through to the publication of a full QBL report, are available to companies considering QBL reporting.

In choosing an appropriate path forward, companies are likely to take into account various factors including:

- ◉ the overall strategic objectives;
- ◉ current capacity to report;
- ◉ prioritization of stakeholder requirements; and
- ◉ the reporting activities within the industry sector.

Sustainability Reporting and Global Reporting Initiative

7.2

In the modern era, sustainability has often been considered as a goal of every kind of organisation, be it business, non-profit organisation or government. Sustainability is a balancing act where business decisions take into account the impact they may have on the various aspects of sustainability including the economic viability of the business. Sustainability usually makes us think about carbon footprints, greenhouse gases and ecosystems. This is the environmental aspect of sustainability. Moreover, two additional aspects are generally recognised as contributing to sustainability: spiritual factors, economic factors and social factors. Together these three pillars of sustainability are often referred to as '*People – Planet – Profit*'. In this scenario, the four forms of sustainability that are considered by the organisations are:

- ◉ **Social sustainability** activities focus on maintaining mutually beneficial relationships with employees, customers and the community. These activities often have benefits in terms of positive profile and customer and community support.
- ◉ **Environmental sustainability** activities focus on the impact of resource usage, hazardous substances, waste and emissions on the physical environment. These activities may have a direct benefit for a business by reducing costs.
- ◉ **Economic sustainability** activities focus on business efficiency, productivity and profit.

The growth of this broader “world sustainability” viewpoint can be seen in the number of companies that have begun reporting on more than just financial operations. Large corporations such as Weyerhaeuser Company, The Boeing Company, PricewaterhouseCoopers, The Procter & Gamble Company, Sony Corporation, and Toyota Motor Corporation, have joined with many others to create the World Business Council for Sustainable Development (WBCSD).

Sustainability Reporting is defined as “an organization’s practice of reporting publicly on its economic, environmental, and/or social impacts, and hence its contributions – positive or negative – towards the goal of sustainable development. Through this process, an organization identifies its significant impacts on the economy, the environment, and/or society and discloses them in accordance with a globally accepted standard.” (GRI, 2018a, p. 3)

Sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs. (Brundtland 1987)

It suggests that sustainability reporting should recognize the interdependence of economic, social and environmental factors; and the importance of inter-generational timescales.

Corporate sustainability reporting helps companies:

- ◉ assess and manage their sustainability impacts,
- ◉ report their contributions to sustainable development and
- ◉ integrate sustainability into their business strategies.

- ◉ identify and manage sustainability risks,
- ◉ improve governance, and
- ◉ enhance reputation.

The Global Reporting Initiative (GRI)

The Global Reporting Initiative (GRI) is considered “the best-known framework for voluntary reporting of environmental and social performance by business and other organizations worldwide.” (Szejnwald Brown, H., 2011). Guidance and standards of Global Reporting Initiative (GRI) are the most widely used framework of sustainability reporting. As per GRI “materiality” is a key principle for reporting. Materiality is achieved when a report covers topics, which “can reasonably be considered important for reflecting the organization’s economic, environmental, and social impacts, or influencing the decisions of stakeholders.”

Benefits of Sustainability Reporting

Internal benefits for companies and organizations can include:

- ◉ Increased understanding of risks and opportunities
- ◉ Enhanced link between financial and non-financial performance
- ◉ More focus on long term management strategy and policy, and business plans
- ◉ Streamlining processes, reducing costs and improving efficiency
- ◉ Benchmarking and assessing sustainability performance with respect to laws, norms, codes, performance standards, and voluntary initiatives

External benefits of sustainability reporting can include:

- ◉ Mitigating – or reversing – negative environmental, social and governance impacts
- ◉ Improving reputation and brand loyalty
- ◉ Enhanced perception on organisation’s value

Sustainability reporting does also have the potential to deliver financial returns and related competitiveness benefits. It contributes to positive results in both financial and non-financial areas including reputation and brand, human resources, and risk management, good governance, business climate, supply chain, social and environmental matters.

Business Responsibility and Sustainability Report

7.3

In 2012, the Securities Exchange Board of India (SEBI) passed a circular amongst the top 100 companies based on market capitalisation, making it mandatory for firms to report their environmental, social and governance initiatives. This report, Business Responsibility Report (BRR), has to be filed as part of their annual reports based on nine principles of National Voluntary Guidelines (NVG). At the time of introduction, only the top-100 BSE-listed firms were required to present BRRs as part of annual reports. In 2016, after signing a memorandum of understanding (MoU) with Global Reporting Initiative, the mandate was extended to top-500 BSE listed companies.

These nine principles aim to cover all aspects which hold significant importance in business operations and sustainability. The principles complement the guidelines and further act as a pathway for flexible and quality reporting standards.

The context and regulatory requirements of Business Responsibility Report

At a time and age when enterprises are increasingly seen as critical components of the social system, they are accountable not merely to their shareholders from a revenue and profitability perspective but also to the larger society which is also its stakeholder. Hence, adoption of responsible business practices in the interest of the social set-up and the environment are as vital as their financial and operational performance. This is all the more relevant for listed entities which, considering the fact that they have accessed funds from the public, have an element of public interest involved, and are obligated to make exhaustive continuous disclosures on a regular basis. Ministry of Corporate Affairs, Government of India, in July 2011, came out with the 'National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business'. These guidelines contain comprehensive principles to be adopted by companies as part of their business practices and a structured business responsibility reporting format requiring certain specified disclosures, demonstrating the steps taken by companies to implement the said principles. SEBI had introduced requirements with respect to BRR vide circular No. CIR/CFD/DIL/8/2012 dated August 13, 2012.

As per clause (f) of sub regulation (2) of regulation 34 of Listing Regulations, the annual report shall contain a business responsibility report describing the initiatives taken by the listed entity from an environmental, social and governance perspective, in the format as specified by the Board. Accordingly, listed entities shall be guided by the format as per Annexure I.

Certain key principles to assess the fulfillment of listed entities and a description of the core elements under these principles are detailed at Annexure II.

Those listed entities which have been submitting sustainability reports to overseas regulatory agencies/stakeholders based on internationally accepted reporting frameworks need not prepare a separate report for the purpose of these guidelines but only furnish the same to their stakeholders along with a mapping of the principles contained in these guidelines to the disclosures made in their sustainability reports. [SEBI Circular No. CIR/CFD/CMD/10/2015 dated November 04, 2015]

Suggested Format For Business Responsibility Report

There are five sections (A, B, C, D and E) in the suggested format. [ANNEXURE I to SEBI Circular]

Section A: General information about the company**Section B: Financial details of the company**

1. Paid up Capital (INR)
2. Total Turnover (INR)
3. Total profit after taxes (INR)
4. Total Spending on Corporate Social Responsibility (CSR) as percentage of profit after tax (%)
5. List of activities in which expenditure in 4 above has been incurred:

Section C: Other details

1. Does the Company have any Subsidiary Company/ Companies?
2. Do the Subsidiary Company/Companies participate in the BR Initiatives of the parent company? If yes, then indicate the number of such subsidiary company(s)
3. Do any other entity/entities (e.g. suppliers, distributors etc.) that the Company does business with, participate in the BR initiatives of the Company? If yes, then indicate the percentage of such entity/entities? [Less than 30%, 30- 60%, More than 60%]

Section D: BR information

1. Details of Director/Directors responsible for BR
2. Principle-wise (as per NVGs) BR Policy/policies

Section E: Principle-wise performance**Nine Principles to Assess Compliance With Environmental,**

Social and Governance Norms as per National Voluntary Guidelines (NVG) [ANNEXURE II to SEBI Circular]

Principle 1: Businesses should conduct and govern themselves with Ethics, Transparency and Accountability

1. Businesses should develop governance structures, procedures and practices that ensure ethical conduct at all levels; and promote the adoption of this principle across its value chain. Businesses should communicate transparently and assure access to information about their decisions that impact relevant stakeholders.
2. Businesses should not engage in practices that are abusive, corrupt, or anti-competition.
3. Businesses should truthfully discharge their responsibility on financial and other mandatory disclosures.
4. Businesses should report on the status of their adoption of these Guidelines as suggested in the reporting framework in this document.
5. Businesses should avoid complicity with the actions of any third party that violates any of the principles contained in these Guidelines.

Principle 2: Businesses should provide goods and services that are safe and contribute to sustainability throughout their life cycle.

1. Businesses should assure safety and optimal resource use over the life-cycle of the product –from design to disposal –and ensure that everyone connected with it–designers, producers, value chain members, customers and recyclers are aware of their responsibilities.

2. Businesses should raise the consumer's awareness of their rights through education, product labelling, appropriate and helpful marketing communication, full details of contents and composition and promotion of safe usage and disposal of their products and services.
3. In designing the product, businesses should ensure that the manufacturing processes and technologies required to produce it are resource efficient and sustainable.
4. Businesses should regularly review and improve upon the process of new technology development, deployment and commercialization, incorporating social, ethical, and environmental considerations.
5. Businesses should recognize and respect the rights of people who may be owners of traditional knowledge, and other forms of intellectual property.
6. Businesses should recognize that over-consumption results in unsustainable exploitation of our planet's resources, and should therefore promote sustainable consumption, including recycling of resources.

Principle 3: Businesses should promote the wellbeing of all employees

1. Businesses should respect the right to freedom of association, participation, collective bargaining, and provide access to appropriate grievance Redressal mechanisms.
2. Businesses should provide and maintain equal opportunities at the time of recruitment as well as during the course of employment irrespective of caste, creed, gender, race, religion, disability or sexual orientation.
3. Businesses should not use child labour, forced labour or any form of involuntary labour, paid or unpaid.
4. Businesses should take cognizance of the work-life balance of its employees, especially that of women.
5. Businesses should provide facilities for the wellbeing of its employees including those with special needs. They should ensure timely payment of fair living wages to meet basic needs and economic security of the employees.
6. Businesses should provide a workplace environment that is safe, hygienic humane, and which upholds the dignity of the employees. Business should communicate this provision to their employees and train them on a regular basis.
7. Businesses should ensure continuous skill and competence upgrading of all employees by providing access to necessary learning opportunities, on an equal and non-discriminatory basis. They should promote employee morale and career development through enlightened human resource interventions.
8. Businesses should create systems and practices to ensure a harassment free workplace where employees feel safe and secure in discharging their responsibilities.

Principle 4: Businesses should respect the interests of, and be responsive towards all stakeholders, especially those who are disadvantaged, vulnerable and marginalized.

1. Businesses should systematically identify their stakeholders, understand their concerns, define purpose and scope of engagement, and commit to engaging with them.
2. Businesses should acknowledge, assume responsibility and be transparent about the impact of their policies, decisions, product & services and associated operations on the stakeholders.
3. Businesses should give special attention to stakeholders in areas that are underdeveloped.
4. Businesses should resolve differences with stakeholders in a just, fair and equitable Manner.

Principle 5: Businesses should respect and promote human rights

1. Businesses should understand the human rights content of the Constitution of India, national laws and policies and the content of International Bill of Human Rights. Businesses should appreciate that human rights are inherent, universal, indivisible and interdependent in nature.

2. Businesses should integrate respect for human rights in management systems, in particular through assessing and managing human rights impacts of operations, and ensuring all individuals impacted by the business have access to grievance mechanisms.
3. Businesses should recognize and respect the human rights of all relevant stakeholders and groups within and beyond the workplace, including that of communities, consumers and vulnerable and marginalized groups.
4. Businesses should, within their sphere of influence, promote the awareness and realization of human rights across their value chain.
5. Businesses should not be complicit with human rights abuses by a third party.

Principle 6: Business should respect, protect, and make efforts to restore the Environment.

1. Businesses should utilize natural and manmade resources in an optimal and responsible manner and ensure the sustainability of resources by reducing, reusing, recycling and managing waste.
2. Businesses should take measures to check and prevent pollution. They should assess the environmental damage and bear the cost of pollution abatement with due regard to public interest.
3. Businesses should ensure that benefits arising out of access and commercialization of biological and other natural resources and associated traditional knowledge are shared equitably.
4. Businesses should continuously seek to improve their environmental performance by adopting cleaner production methods, promoting use of energy efficient and environment friendly technologies and use of renewable energy.
5. Businesses should develop Environment Management Systems (EMS) and contingency plans and processes that help them in preventing, mitigating and controlling environmental damages and disasters, which may be caused due to their operations or that of a member of its value chain.
6. Businesses should report their environmental performance, including the assessment of potential environmental risks associated with their operations, to the stakeholders in a fair and transparent manner.
7. Businesses should proactively persuade and support its value chain to adopt this principle.

Principle 7: Businesses, when engaged in influencing public and regulatory policy, should do so in a responsible manner

1. Businesses, while pursuing policy advocacy, must ensure that their advocacy positions are consistent with the Principles and Core Elements contained in these Guidelines.
2. To the extent possible, businesses should utilize the trade and industry chambers and associations and other such collective platforms to undertake such policy advocacy.

Principle 8: Businesses should support inclusive growth and equitable development

1. Businesses should understand their impact on social and economic development, and respond through appropriate action to minimise the negative impacts.
2. Businesses should innovate and invest in products, technologies and processes that promote the wellbeing of society.
3. Businesses should make efforts to complement and support the development priorities at local and national levels, and assure appropriate resettlement and rehabilitation of communities who have been displaced owing to their business operations.
4. Businesses operating in regions that are underdeveloped should be especially sensitive to local concerns.

Principle 9: Businesses should engage with and provide value to their customers and consumers in a responsible manner

1. Businesses, while serving the needs of their customers, should take into account the overall well-being of the customers and that of society.
2. Businesses should ensure that they do not restrict the freedom of choice and free competition in any manner while designing, promoting and selling their products.
3. Businesses should disclose all information truthfully and factually, through labelling and other means, including the risks to the individual, to society and to the planet from the use of the products, so that the customers can exercise their freedom to consume in a responsible manner. Where required, businesses should also educate their customers on the safe and responsible usage of their products and services.
4. Businesses should promote and advertise their products in ways that do not mislead or confuse the consumers or violate any of the principles in these Guidelines.
5. Businesses should exercise due care and caution while providing goods and services that result in over exploitation of natural resources or lead to excessive conspicuous consumption.
6. Businesses should provide adequate grievance handling mechanisms to address customer concerns and feedback.

Corporate Reporting has come a long way over the years. The multiple corporate reporting frameworks including corporate environmental reporting, corporate social responsibility reporting have evolved to report various corporate efforts to meet stakeholders' expectation. These efforts, though apparently seem independent, together create value for the organization. Unfortunately, none of reporting mechanism stated above effectively explain how such value is created and further enhanced (Sarkar, 2021)¹. In this context, Integrated Reporting is increasingly gaining popularity.

The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates, preserves or erodes value over time. However, an integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers.

Definition of Integrated Report (IR)

As per the Integrated Reporting Framework issued by International Integrated Reporting Council² (IIRC), an integrated report is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value over the short, medium and long term. In other words, integrated report is the representation of the financial and non-financial performance of a company in a single report. IR provides non-financial data such as how the company performs on environmental, social and governance (ESG) parameters, how sustainability is embedded in the core business strategy etc.

Thus, IR aims to provide a more holistic form of reporting the value created by a business, by considering non-financial resources such as human, social and intellectual capitals as well as financial capital. This creates a shift in focus from meeting short-term financial goals, to developing a long-term business strategy, which not only makes a commitment to social and environmental issues, but also to sustainable businesses and society.

IR is more than just another corporate report; it is defined as a process, founded on integrated thinking, which results in a periodic integrated report highlighting value creation.

Objectives of Integrated Reporting

The survival of an organization depends on how successful it is in creating value for the financial capital providers in short, medium and long term (Sarkar, 2021). This value is, however, created through the interaction among various financial and non-financial resources (termed as 'capital' in the IR Framework issued by IIRC). Integrated Reporting helps an organization to communicate, in a clear way, how it is using its financial and non-

¹ https://www.academia.edu/63886069/Implementing_Integrated_Reporting_in_India_Issues_and_Challenges

² IIRC became a part of Value Reporting Framework (VRS) in June, 2021. VRS again was merged with IFRS Foundation w.e.f. July 1, 2022.

financial resources and relationships to create and sustain value in different time horizons (Sarkar, 2021). Thus, the objectives of integrated reporting are:

- a. To improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.
- b. To promote a more cohesive and efficient approach to corporate reporting that draws on different reporting strands and communicates the full range of factors that materially affect the ability of an organization to create value over time.
- c. To enhance accountability and stewardship for the broad base of capitals (financial, manufactured, intellectual, human, social and relationship, and natural) and promote understanding of their interdependencies.
- d. To support integrated thinking, decision-making and actions that focus on the creation of value over the short, medium and long term.

Integrated reporting is consistent with all the developments in corporate reporting over time across the world. It has the potential to synthesise all of them and can accelerate these individual initiatives and provide impetus to greater innovation in corporate reporting.

It may be expected that over time integrated reporting will become the corporate reporting norm. Organisations will no longer produce numerous, disconnected and static communications. Integrated reporting will meet all the information needs of the stakeholders.

The Integrated Reporting Framework Issued by IIRC

Towards achieving a globally acceptable Integrated Reporting framework, IIRC issued the final Consultation Draft of the International Integrated Reporting Framework in April, 2013. The same had been launched as a global framework in December, 2013.

The basic purpose of <IR> Framework is to establish Guiding Principles and Content Elements that govern the overall content of an integrated report, and to explain the fundamental concepts that underpin them.

However, the Framework is principles-based rather than prescriptive in order to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations while enabling a sufficient degree of comparability across organizations to meet relevant information needs.

At the same time, the Framework also says that any communication claiming to be an integrated report and referencing the <IR> Framework should apply all the requirements identified in bold italic type unless:

- a. The unavailability of reliable information or specific legal prohibitions results in an inability to disclose material information
- b. Disclosure of material information would cause significant competitive harm.

Moreover, an integrated report should include a statement from those charged with governance that includes:

- ⊙ An acknowledgement of their responsibility to ensure the integrity of the integrated report
- ⊙ Their opinion or conclusion about whether, or the extent to which, the integrated report is presented in accordance with the <IR> Framework.

Where legal or regulatory requirements preclude a statement of responsibility from those charged with governance, this should be clearly stated.

The Value Creation Process³

At the core of any Integrated Report there is the Value Creation Process. It explains how an organization creates value over time by augmenting or improving a number of ‘Capitals’ through a systematic process using the organization’s business model (Sarkar, 2021). The value and value creation have the following features:

- a. Value has two interrelated aspects – value created, preserved or eroded for the organization itself and for Others (i.e., stakeholders and society at large).
- b. Providers of financial capital are interested in the value an organization creates for itself. They are also interested in the value an organization creates for others when it affects the ability of the organization to create value for itself.
- c. The ability of an organization to create value for itself is linked to the value it creates for others. This happens through a wide range of activities, interactions and relationships in addition to those, such as sales to customers, that are directly associated with changes in financial capital. When these interactions are material, they find a mention in the integrated report. This includes consideration to externalities (i.e., the costs or other effects on capitals not owned by the firm).
- d. These externalities may be positive or negative and thus may ultimately increase or decrease value created for the organization; therefore, providers of financial capital need information about material externalities to assess their effects and allocate resources accordingly.
- e. Because value is created over different time horizons and for different stakeholders through different capitals, it is unlikely to be created through the maximization of one capital while disregarding the others.

The value creation process as outlined in the <IR> Framework may be discussed as follows:

I. The Components: The components of the value creation process in the organisation are:

(a) The Capitals: The IIRC used the term “capitals” to denote various resources, with six capitals identified as: financial; manufactured; intellectual; human; social and relationship; and natural.

- i. Financial Capital:** It is broadly understood as the pool of funds available to an organization. This includes both debt and equity finance. This description of financial capital focuses on the source of funds, rather than its application which results in the acquisition of manufactured or other forms of capital.
- ii. Manufactured Capital:** It is seen as human-created, production-oriented equipment and tools. A distinction is drawn between inventory (as a short-term asset) and plant and equipment (tangible capital). Although the identification of these items is generally agreed, their accounting treatment, particularly in terms of valuation, depreciation and taxation, is more contentious.
- iii. Intellectual Capital:** It refers to organizational, knowledge-based intangibles, including intellectual property such as patent and copyrights and organisational capital such as tacit knowledge, systems, procedures and protocols.
- iv. Human Capital:** It includes people’s competencies, capabilities and experience as well as their motivations to innovate.
- v. Social and Relationship Capital:** It refers to the institutions and the relationships within and

³ http://www.integratedreporting.org/wp-content/uploads/2022/08/IntegratedReportingFramework_081922.pdf

between communities, groups of stakeholders and other networks, and the ability to share information to enhance individual and collective well-being. For example, shared norms, key stakeholder relationships, social license to operate etc.

vi. Natural capital: It includes all renewable and non-renewable environmental resources and processes that provide goods or services.

(b) External Environment: It includes various economic conditions, technological change, societal issues and environmental challenges, sets the context within which the organization operates.

(c) Purpose, Mission and Vision: This covers the entire organization and defines the objective and broad philosophy of the organization in specific terms.

(d) Governance: Those charged with governance are responsible for creating an appropriate oversight structure to support the ability of the organization to create value.

(e) Risk and Opportunities: An organization identifies risk and opportunities when it continuously monitors and analyses the forces of external environment in the context of its mission and vision.

(f) Strategy and Resource Allocation: This determines organization's long-term attitude towards management of risk and maximizing opportunities. Strategic objectives and processes are implemented through allocation of resources towards productive uses.

(g) Performance: An organization puts in place appropriate measures to monitor and evaluate its performance. This helps management taking proper decisions on different matters which have direct bearing on organization's performance.

(h) Outlook: Since the process of value creation is dynamic, it is necessary to review each and every component of the process as well as their interaction. Organization's focus on its outlook helps in revision and refinement of the above components and interactions.

(i) Business Model: At the core of value creating process is an organisation's business model which employs various capitals as inputs and converts them into output (product or services) through some well-defined business activities. Outputs and activities lead to outcomes in terms of effect on capital.

II. The Process: In the value creation process, an organization, at the very beginning, selects an appropriate business model. The selection of the model depends on a number of factors, such as, assessment of external forces, organization's long-term mission and vision, assessment of risks and opportunities arising out of external changes and organization's attitude towards handling the risks (or strategy). Thereafter, based on a well-defined resource allocation plan, the organization employs various capitals as inputs and converts them into outputs through a number of business activities. This leads to significant improvement in quantity and/or quality of capitals (like profits improves financial capital, remuneration, career advancement programmes and training improves human capital, R&D improves intellectual capital, use of renewable energy sources improves natural capital, better process improves manufactured capital and after sale services, vendor development programmes and CSR activities improve social and relational capital) and thus create value. This process, however, is not static. Hence, the organization reviews all the components and relationships continuously based on its performance related information and outlook and initiates appropriate and timely changes either in the components or in the model to improve the value creation mechanism.

The following figure explains the process in pictorial form.

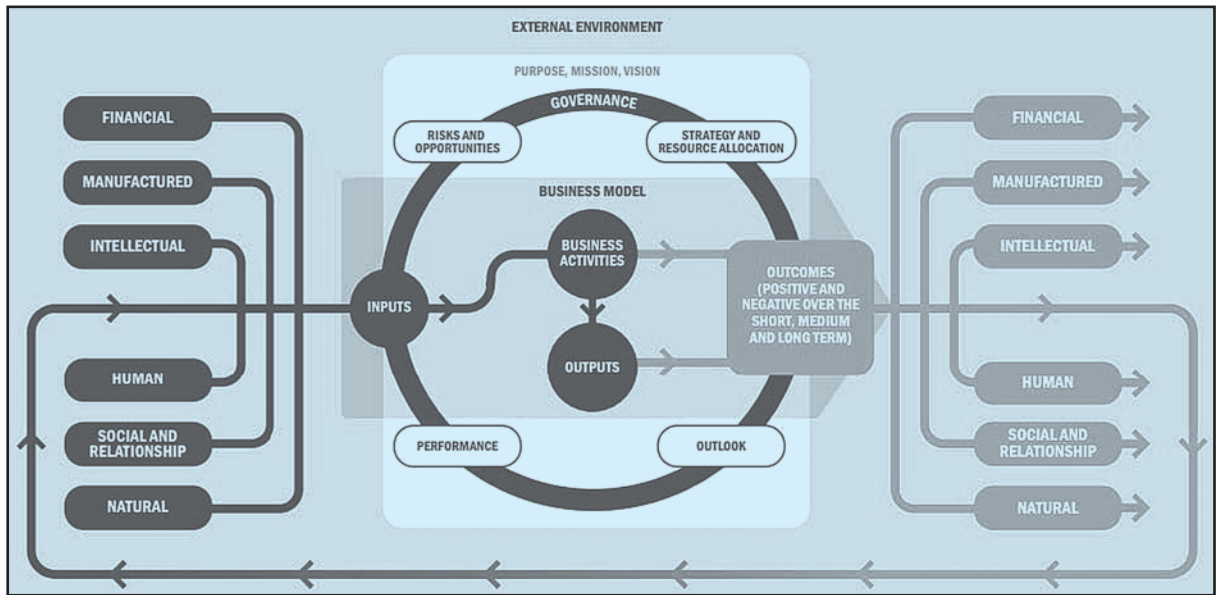


Figure 7.1: Value Creation, Preservation and Erosion over Time

The Integrated Report

Being a principle-based approach, integrated reporting allows much scope of adaptations to cater to the diversity among organisations across the world. Thus, to improve consistency and comparability, IIRC advocated certain (seven) guidelines while preparing and presenting integrated reports. These are:

- a. Strategic focus and future orientation
- b. Connectivity of information
- c. Stakeholder relationships
- d. Materiality
- e. Conciseness
- f. Reliability and completeness
- g. Consistency and comparability

Judgement is needed in applying them, particularly when there is an apparent tension between them (e.g., between conciseness and completeness).

Integrated Reporting – The Global Trend

There is an increasing interest over Integrated Reporting worldwide. More than 2,500 businesses in 70+ countries have adopted integrated reporting. In early 2022, IFRS Foundation staff conducted a research project to determine where and how the Integrated Reporting Framework is being implemented worldwide. The findings of the study⁴ shows that most integrated reports come from the Asia Pacific, Middle East and Africa, and Europe. Within the regions there are some countries that are leaders in adopting integrated reporting. For instance, Japanese

⁴ <https://www.integratedreporting.org/news/the-growing-momentum-for-integrated-reporting-part-1/>

companies make up a large portion of the sampled reports in the Asia Pacific region. Sector analysis[1] indicated that companies across all sectors are producing integrated reports (see the figure below). The majority of the reports in the study came from entities in the Infrastructure, Financials and Resource Transformation sectors. Further investigation showed that integrated reports are being produced in 71 out of the 77 industries based on the Sustainable Industry Classification System® (SICS®), demonstrating the widespread adoption of integrated reporting (Ref: The growing momentum for integrated reporting: Part 1).

Challenges to be Addressed for Implementing Integrated Reporting

Though widely accepted across the globe, integrated reporting is still to become the global corporate reporting language. This is because there exists a number of challenges that are to be addressed to improve its acceptability to all. These challenges include:

- a. Issue of Assurance: Who will provide assurance to Integrated Reports?
- b. Lack of Global Standards: There is no internationally acceptable standard for IR.
- c. Lack of Acceptable Metrics: Measuring and quantifying non-financial metrics and then integrating them with financial performance are complex tasks due to non-availability of acceptable metrics.

Integrated Reporting in India

In India, the present corporate reporting practices are largely fragmented. Companies in India requires to produce multiple statutory reports as necessitated by various legislations including Companies Act, Accounting Standards and Stock Exchanges' Listing Agreement guidelines by SEBI. Financial reporting in form of financial statements, Management Discussion and Analysis, Director's Report, Board's Report such as Corporate Governance Report, Annual CSR Report are some of them. In addition, a company needs to incorporate, within its Annual Report, the auditor's report and Secretarial Audit Report also. Hence, corporate India still prepares multiple disintegrated reports. Accordingly Integrated Reporting has a great potential in India that can eliminate this multiple reporting requirements and overlapping of information by a single report (Sarkar, 2021).

Keeping this in mind the Securities and Exchange Board of India (SEBI) issued a circular no. SEBI/HO/CFD/CMD/ CIR/P/2017/10 dated 6th February, 2017, to introduce Integrated Reporting on a voluntary basis for top 500 companies who are required to prepare Business Responsibility Report (BRR). Thus, in India, Integrated Reports are not yet mandatory. Still a fast-tracked adoption of Integrated Reporting <IR> can be seen with several organisations. As per the data published by AICL Communications, 75 companies from BSE 500 group, 23 Nifty 50 companies and 16 Sensex companies are currently publishing integrated reports. There are 66 full annual reports have been prepared as per the <IR> Framework. The combined market capitalisation of the companies adopting integrated reporting in India is more than \$1 trillion.

Integrated Reporting is the future of corporate reporting in India and sooner or later it will be accepted by all. At present, India is inching towards the reporting ecosystem that will speed up the implementation of Integrated Reporting.

Corporate Social Responsibility Reporting in India

7.5

Concept of Corporate Social Responsibility

A business organisation is a part of the society. It procures its resources from the society and hence, in turn has responsibilities towards the wellbeing of the society. Corporate Social Responsibility (CSR) is the commitment of an organisation towards this responsibility of the society. In other words, it is a form of self-regulation that reflects a business's accountability and commitment to contribute to the well-being of communities and society through various environmental and social measures.

The World Business Council for Sustainable Development (WBCSD) defines Corporate Social Responsibility (CSR) as “the continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large.”

According to United Nations Industrial Development Organization (UNIDO), “Corporate social responsibility is a management concept whereby companies integrate social and environmental concerns in their business operations and interactions with their stakeholders. CSR is generally understood as being the way through which a company achieves a balance of economic, environmental and social imperatives (“Triple-Bottom-Line- Approach”), while at the same time addressing the expectations of shareholders and stakeholders.”

CSR plays a crucial role in a company's brand perception; attractiveness to customers, employees, and investors; talent retention; and overall business success.

Present Legislation on CSR in India

In India, traditionally, regulators' effort to bring CSR under the ambit of a well-defined regulatory structure was never whole hearted. The Companies Act, 2013 has only introduced the idea of CSR to the forefront.

The Legal Framework

The present legal framework on CSR in India comprises of –

- (a) Section 135 of Companies Act 2013;
- (b) Schedule VII of Companies Act 2013; and
- (c) Companies (Corporate Social Responsibility Policy) Rules 2014.

Applicability of CSR Regulation

As per Section 135(1) read with Companies (Corporate Social Responsibility Policy) Rules 2014, every company including its holding or subsidiary, and a foreign company defined under clause (42) of section 2 of the Act having its branch office or project office in India, having net worth of rupees five hundred crore or more, or turnover of rupees one thousand crore or more or a net profit of rupees five crore or more during three immediately preceding financial years shall come under the ambit of CSR regulation and shall constitute a Corporate Social Responsibility

Committee of the Board consisting of three or more Directors⁵, out of which at least one director shall be an independent director.

Role of CSR Committee

According to Section 135(3), the CSR Committee shall —

- (a) formulate and recommend to Board
 - (i). CSR Policy indicating the activities to be undertaken by the company in the areas or subject specified in Schedule VII;
 - (ii). the amount of expenditure to be incurred on the above activities and
- (b) monitor the CSR Policy of the company from time to time.

Role of the Board in CSR

The Board of the company shall have the following responsibilities:

- a. The Board's report under sub-section (3) of section 134 shall disclose the composition of the Corporate Social Responsibility Committee; [Section 135(2)]
- b. Based on the recommendations of the CSR Committee, the Board shall approve the Corporate Social Responsibility Policy designed for the company, and disclose contents of such Policy in its report and also place it on the company's website; [Section 135(4)(a)]
- c. The Board shall ensure that the activities as are included in Corporate Social Responsibility Policy of the company are undertaken by the company; [Section 135(4)(b)]
- d. The Board shall ensure that the company spends, in every financial year, at least two per cent. of the average net profits of the company made during the three immediately preceding financial years (or during such immediately preceding financial years in case the company has not completed three years). [Section 135(5)]

Permissible CSR Activities

Activities may be included by the company in their CSR Policy as per Schedule VII of the Companies Act, 2013. Accordingly, Schedule VII suggests the following areas where CSR initiatives may be undertaken:

- a. Eradicating extreme hunger and poverty;
- b. Promotion of education;
- c. Promoting gender equality and empowering women;
- d. Reducing child mortality and improving maternal health;
- e. Combating HIV, AIDS, malaria and other diseases;
- f. Ensuring environmental sustainability;
- g. Employment enhancing vocational skills;
- h. Social business projects;
- i. Contribution to the Prime Minister's National Relief Fund or any other fund set up by the Central Government or the State Governments for socio-economic development and relief and funds for the welfare of the Scheduled Castes, the Scheduled Tribes, other backward classes, minorities and women;
- j. Such other matters as may be prescribed.

⁵ two or more directors for companies covered under Section 149.

Quantum of CSR Spending [Section 135 (5) and (6) read with Companies (CSR) Rules 2014]

While an eligible company needs to spend at least two per cent. of the average net profits of the company made during the three immediately preceding financial years, amount overspent or remaining unspent shall be treated as follows:

- a. If the company spends an amount in excess of the requirements, then it may set off such excess amount against the requirement to spend for three succeeding financial years. For this purpose, the excess amount available for set off shall not include the surplus arising out of the CSR activities and the Board of the company shall pass a resolution to that effect.
- b. Any amount remaining unspent, pursuant to any ongoing project, undertaken by a company in pursuance of its Corporate Social Responsibility Policy, shall be transferred by the company within thirty days from the end of the financial year to a special account (opened by the company in that behalf for that financial year in any scheduled bank) to be called the Unspent Corporate Social Responsibility Account.

Such amount shall be spent by the company in pursuance of its obligation towards the Corporate Social Responsibility Policy within three financial years from the date of such transfer, failing which, the company shall transfer the same to a Fund specified in Schedule VII, within thirty days from the date of completion of the third financial year.

- c. Where the amount unspent is not related to any ongoing project, the amount shall be transferred to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.

In addition to the above, the following points should also be considered:

- a. The board shall ensure that the administrative overheads shall not exceed five percent of total CSR expenditure of the company for the financial year.
- b. Any surplus arising out of the CSR activities shall not form part of the business profit of a company and shall be ploughed back into the same project or shall be transferred to the Unspent CSR Account and spent in pursuance of CSR policy and annual action plan of the company or transfer such surplus amount to a Fund specified in Schedule VII, within a period of six months of the expiry of the financial year.

Accounting for CSR Transactions

As per the provisions detailed in Section 135 of the Companies Act, 2013 and Companies (CSR) Rules, 2014, CSR expenditure incurred by a company is accounted as follows:

Transactions	Accounting Entries
For CSR expenditure incurred in cash	CSR Expenditure A/c.....Dr. To Cash / Bank A/c
For CSR expenditure incurred in kind	CSR Expenditure A/c.....Dr. To Purchase /Cost of goods consumed A/c
Unspent CSR expenditure [Section 135(5)] i.e., other than on ongoing project	CSR Expenditure A/c.....Dr. To Cash/Purchase/Cost of goods consumed (as applicable) To CSR to be Deposited in Fund A/c
Unspent CSR expenditure [Section 135(6)] i.e., on ongoing project	CSR Expenditure A/c.....Dr. To Cash/Purchase/Cost of goods consumed A/c (as applicable) To CSR to be Spent on Ongoing project A/c

Transactions	Accounting Entries
Excess spent CSR expenditure	CSR Expenditure A/cDr. CSR Pre-Spent A/cDr. To Cash/Purchase/Cost of goods consumed A/c (as applicable)

Accordingly,

- the amount of CSR expenditure shall be disclosed way of a note to the Statement of Profit and Loss.
- for the unspent CSR expenditure, a provision for liability for the amount representing the extent to which the amount is to be transferred, needs to be recognized in the financial statements.
- the excess amount spent would be allowed to be carried forward to next year and if the company decides to adjust such excess against future obligation, then to the extent of such excess, an asset will have to be recognized for the amount which is spent in excess of 2%.
- if the company decides not to carry forward such excess spend in full or in part, the same to the extent not carried forward is to be recognized as expense.

CSR Reporting:

- The Board's Report of a company covered under these rules pertaining to any financial year shall include an annual report on CSR containing particulars specified in Annexure I or Annexure II, as applicable. As per Annexure I, the report shall include -
 - A brief outline of the company's CSR Policy, including overview of projects or programs proposed to be undertaken and a reference to the web-link to the CSR Policy and projects or programs.
 - The Composition of the CSR Committee.
 - Average net profit of the company for last three financial years
 - Prescribed CSR Expenditure (two per cent of the amount as in item 3 above)
 - Details of CSR spent during the financial year.
 - Total amount to be spent for the financial year;
 - Amount unspent, if any;
 - Manner in which the amount spent during the financial year.
 - In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report.
 - A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company.

Annexure II provides a further detailed format and additional disclosure requirements such as –

- Surplus arising out of the CSR Projects or programmes or activities of the previous financial years;
- Amount required to be set-off for the financial year, if any;
- Amount spent in Administrative overheads;
- Amount spent on Impact Assessment, if applicable;
- Details of Unspent Corporate Social Responsibility amount for the preceding three Financial Years;
- Whether any capital assets have been created or acquired through Corporate Social Responsibility amount spent in the Financial Year;
- Reason for such failure.

Environmental, Social and Governance (ESG)

7.6

- **Concept of ESG Reporting**

In today's competitive world, corporate organizations with a transparent and fair image receive added attention from various stakeholders. Especially, investors are increasingly applying various nonfinancial factors as part of their analysis process to identify material risks and growth opportunities. In these process, corporates are being judged on three important aspects namely, economic, environmental and social aspects. Thus, ESG reporting has become immensely important. Each and every corporate house needs to disclose all the facts and figures relating to its contributions made towards the protection of environment and society as well as it should disclose all the essential economic information in front of the stakeholders. In a recent report, EY has stated that investors need clear and transparent ESG (Environmental, Social and Governance) disclosures founded on high-quality data and produced using robust and reliable processes and systems (EY – Global – Institutional Survey Report, 2020).

- **Importance of ESG Reporting**

ESG reporting refers to the disclosure of data covering the company's operations in three areas: environmental, social and corporate governance. The importance of ESG Reporting can be assessed based on the following five broad aspects:

- a. ESG risks and opportunities have potential impact on shareholder's value.
- b. Today, most of the investors wish to integrate the business with environment and society to generate sustainable profits in responsible manner.
- c. ESG Reporting analyses how the business operations of the company impact the environment both directly as well as indirectly.
- d. ESG Reporting analyses how a company manages relationships with its stakeholders, regardless of where it operates.
- e. ESG reporting highlights on various dimensions of corporate governance.

Annual report, in spite of incorporating many mandatory reporting tools, often fails to identify the corporates' ESG performance. A separate ESG reporting can do a lot to meet this gap.

- **ESG Criteria**

ESG reporting requires identification and reporting information about the three criteria in a meaningful way. While, environmental criteria consider how a company performs as a steward of nature, social criteria examine how it manages relationships with employees, suppliers, customers, and the communities. Finally, governance deals with a company's leadership, executive pay, audits, internal controls, and shareholder rights. Accordingly, the following criteria are largely used in this context.

(A) Environmental test criterion includes:

- a. Conservation of the natural world
- b. Climate change and carbon emissions
- c. Air and water pollution
- d. Biodiversity
- e. Deforestation
- f. Energy efficiency
- g. Waste management
- h. Water scarcity

(B) Social test criterion includes

- a. Consideration of people & relationships
- b. Customer satisfaction
- c. Data protection and privacy
- d. Gender and diversity
- e. Employee engagement
- f. Community relations
- g. Human rights
- h. Labor standards

(C) Governance test criteria includes consideration of:

- a. Standards for running a company
- b. Board composition
- c. Audit committee structure
- d. Bribery and corruption
- e. Executive compensation
- f. Lobbying
- g. Political contributions
- h. Whistle blower schemes

• **Evolution of ESG Reporting in India**

The effort to lay more emphasis on environmental and societal aspect of business was started way back in 2009. The journey of ESG reporting in India is quite fascinating.

Table – 1: Evolution of ESG Reporting in India

Year	Reporting Policies
2009	National Voluntary Guidelines (NVG) were issued by Ministry of Corporate Affairs (MCA) on Corporate Social Responsibility Reporting

Year	Reporting Policies
2012	Business Responsibility Report (BRR) - SEBI mandated top 100 listed companies by Market Capitalization to file BRR along with Annual Report based on NVG
2014	Corporate Social Responsibility (CSR) Reporting was mandated and rules came into force
2015	Filing BRR was extended to the top 500 listed companies by Market Capitalization
2017	SEBI Circular advised to file Integrated Report - may be adopted on a voluntary basis from FY 2017 -18 for top 500 listed companies by Market Capitalization
2019	National Guidelines on Responsible Business Conduct (NGRBC) were released in March 2019. It is a set of nine principles to guide the corporates for ESG reporting.
2019	SEBI extended the BRR requirement to the top 1000 listed companies by Market Capitalization from FY 2019-20
2021	SEBI issued circulars on Introduction of BRSR in May 10, 2021 (Pr. No. 18/2021) – Initiative towards ensuring investors’ access to standardized disclosures on ESG Parameters

ESG Reporting through Business Responsibility and Sustainability Reporting

In India, no separate format has so far been promulgated for ESG reporting; rather the government is expecting to achieve the benefits of ESG reporting through BRSR. In the following table, various aspects of BRSR (for detail reference on different sections of BRSR, please refer to Module 7.3 of this study material) have been mapped against ESG disclosures.

Table – 2: Alignment of BRSR’s KPIs with ESG Pillars

Environmental	Social	Governance
Energy and GHG Emissions	Employee Well-Being	Anti-corruption and anti-bribery policies
Solid Waste management	Health and Safety of Workers	Conflict Management Process
Water Consumption and Withdrawal	Trainings	Retention Policies
3R Practices	Human Rights	Remuneration Policies
Sustainable Sourcing	Social Impact Assessment	Stakeholder Engagement
Extended Producer Responsibility (EPR)	Gender Equality	
Life Cycle Assessments (LCA)	CSR Activities and details of beneficiaries	

Extinction Accounting: Should It Be a Part of Integrated Reporting and ESG Reporting?

Scientists declare that we have now entered the sixth mass extinction on planet earth, that they identify is a direct result of human – and corporate – activity. From insects to mammals, trees to flowers, species are going extinct at an unprecedented rate. The corporate world and society rely entirely on the healthy functioning of the ecosystem surrounding us. Hence, any imbalance in this ecosystem due to extinction of species is likely to hurt the society and the corporates as well. In this context, a new concept, extinction accounting is gaining popularity.

Extinction accounting may be described as “an attempt by companies to report on and evaluate the absence of specific species”. Extinction accounting is intended as a means of reporting on biodiversity-related risks which creates an awareness of the importance of managing biodiversity loss (including the risk of extinction). In their path breaking article ‘The emancipatory potential of extinction accounting: Exploring current practice in integrated reports’, J.F. Atkins and W. Maroun have proposed a detail framework on extinction accounting¹.

Integrated thinking, at the heart of integrated reporting, merges social, environmental and economic factors into corporate strategic value creation throughout the whole organisation. Consequently, the contribution of companies to species extinctions cannot be excluded from integrated reports. As integrated reporting brings environmental and ecological outcomes into the heart of accounting, the ways in which species are affected by a company’s activities, as well as steps companies are taking to prevent extinctions, must be included in integrated reports and also be a part of ESG reporting.

¹ <https://eprints.whiterose.ac.uk/126203/3/Final%20MS%2021%20December.pdf>

Human Resources report is an analytical tool for displaying human resources-related facts, insights, and metrics to improve workforce performance, recruiting procedures, and other important HR operations.

By using HR-driven metrics, management can spot trends, identify inefficiencies, capitalise on strengths, and turn-around weaknesses.

Types of HR reports:

1. Employee information reports

Employee Information Reports provide all information on employees' data factors, such as employee headcount, employee turnover rates, diversity, revenue per employee, employee satisfaction percentage, employee engagement percentage, and average employee tenure, etc.

2. Recruitment reports

The following are some important metrics to track in recruitment reports:

- ⦿ Number of candidates evaluated in a period
- ⦿ Rate of offer declination
- ⦿ Reasons for offer rejection
- ⦿ Total number of interviews
- ⦿ Duration of the interview
- ⦿ Top channels for candidate sourcing
- ⦿ Active job postings by location, department, and other criteria
- ⦿ Candidates from the talent pool and their behaviour patterns

3. Performance management reports

It's critical to keep track of employees' goals, skillsets, feedback, and other information. Performance reports provide a logical starting point for appraising staff.

Performance reports can also show how each employee is doing in terms of meeting their objectives.

The following are some of the parameters for measuring performance:

- ⦿ Employee evaluations
- ⦿ Time to productivity
- ⦿ The number of hours worked and revenue
- ⦿ Employee objectives and performance, as well as their improvements
- ⦿ Peer reviews, etc.

4. The finance team is in charge of majority of the compensation provided to employees. Payroll, on the other hand, is the responsibility of the HR department. To better understand compensation, keep track of salary reports, appraisal reports, paid time off reports, overtime compensation and dues reports, shift compensation, deductions, and financial reports based on each filter or criteria.

5. **Terminations Budget/Analysis**

This report contains the list of all employees who have been terminated from employment within a defined date range.

6. **Equal employment opportunity reports**

Equal employment opportunity is a pivotal concept for employees and employers alike. It ensures that the employment in an organization is not biased towards a specific gender, race or age group.

7. **Workplace Safety Reports**

It includes Employee Grievance Reports, compensation reports and safety reports

- **Concept of Value Added**

‘Value-Added’ is a basic and important measurement to judge the performance of an enterprise. It indicates the net value or wealth created by the manufacturer during a specified period. No enterprise can survive or grow, if it fails to generate wealth. An enterprise may exist without making profit, but cannot survive without adding value. Value added is a more meaningful measure of corporate performance than conventional measures based on traditional financial accounting, and can be particularly useful for employee-oriented approach which will allow more fruitful discussions with employees and can be especially useful in productivity agreements. The value added concept attempts to neutralise the distinction between capital and labour by focussing on the creation of wealth i.e., the fund from which all payments to capital, labour and the government must come. It formally recognises this relationship by highlighting the two aspects of wealth creation and application. In this respect it is more alike to a funds flow statement than a conventional profit and loss account.

Value added can be particularly useful to management in comparing the performance of business within a group or comparing a company’s performance with its industry as a whole. Financial reporting has traditionally concentrated on the needs of shareholders and creditors with a consequent focus upon profit to evaluate the success of a business enterprise. However, there is a growing recognition of the needs of the stakeholders, especially employees. Value added statements report the results of an enterprise in a way that recognises other stakeholders. The value added concept also aligns corporate financial reporting with ‘National Income Accounting’. Value added is included in the computation of Gross Domestic Product (GDP).

- **Value Added Statement**

This is a financial statement that shows how much value (wealth) has been created by an enterprise through the utilisation of its capacity, capital, manpower, and other resources, and how it is then allocated among different stakeholders (employees, lenders, shareholders, government, etc.) within an accounting period. In other words, these are financial statements that show how a business creates value and distributes that wealth to diverse stakeholders. Employees, shareholders, the government, creditors, and the wealth retained in the enterprise are among the numerous stakeholders. A typical Value Added Statement has two parts – Creation /Generation of Value Added and Distribution of Value Added.

I. Creation or Generation of Value Added: This part of the value-added statement describes how the value is generated. Here, value added is shown as the excess of turnover plus income from services over the cost of bought-in material and cost of services. The term ‘turnover’ is defined as the gross sale of goods plus sales tax and duties minus the amount of rebates, returns, commission, discounts and goods used for self-consumption.

II. Application of Value Added: This part describes how the value added is shared by the three contributing members viz., (a) employees, (b) government and (c) providers of capital. The remainder of the value added is reinvested in the business in the form of depreciation and retained earnings.

The following is a general format of Value Added Statement.

Value Added Statement
For the year ended on

Particulars	(₹)	(₹)
Creation of Value Added		
(a) Sales (including sales tax and excise duty but net of rebate, commission, returns, discounts and goods for self-consumption)		
(b) Income from services (e.g., royalty, dividend and interest, rent received etc.)		
(c) Cost of bought-in materials (consumption of raw materials, consumables, packing materials, stationery, fuel and oil, electricity, repairs etc.)		
(d) Cost of bought-in services (e.g., audit fees, insurance, rent paid, travelling expenses, advertisement, postage and telegram, subscriptions, other expenses)		
Added Value Created [(a)+(b) –(c) – (d)]		
Distribution of Value Added		
(a) To Employees (e.g., wages and salaries, director's fees, contribution to P.F, ESI etc.)		
(b) To Government (e.g., duties and taxes)		
(c) To Providers of Capital (e.g., Interest and Dividend)		
(d) Retained Earnings (e.g., depreciation and retained profit)		
Disposal of Value Added [(a)+(b) +(c) + (d)]		

- **Uses of Value Added Statement**

Value added reporting is not only useful for external purposes but also for internal decision making and performance measurement. The following are some of the uses of value added reporting:

- a. Value added is an alternative performance measure to profit.
- b. Useful productivity measures can be devised using corporate value added. For example,
 - i. Value added per rupee of capital employed
 - ii. Value added per rupee of sales
 - iii. Value added per rupee of labour cost
 - iv. Value added per employee
 - v. Value added per labour hour or machine hour
- c. Resource allocation decisions may be based upon value added.

- d. The value added reporting is found useful by many companies for explaining company results to employees. One of the significant uses of the concept of value added is its incorporation in company incentive schemes or bonus schemes. The schemes work by establishing a base ratio of value added to payroll costs thereby creating a base index. If the index moves favourably in later periods, a bonus is payable to scheme members. There are two principal methods of using the base index to calculate bonus.

Consider the following illustration on preparation of Value Added Statement.

Illustration 1

The following are the balances in the account statements of X Ltd. for the year ended 31st March, 2005:

(₹ '000)

Particulars	(₹)
Turnover	4,600
Plant and machinery net	2,160
Loss on sale of machinery	150
Depreciation on plant and machinery	400
Dividends to ordinary shareholders	292
Debtors	390
Creditors	254
Total stock of all materials, WIP and finished goods:	
Opening stock	320
Closing stock	400
Raw materials purchased	1,250
Cash at bank	196
Printing and stationery	44
Auditor's remuneration	56
Retained profits (opening balance)	1998
Retained profits for the year	576
Rent, rates and taxes	330
Other expenses	170
Ordinary share capital issued	3,000
Interest on/borrowings	80
Income-tax for the year	552
Wages and salaries	654
Employees state insurance	70
P.F. contribution	56

Prepare a Value Added Statement for the company for the year 2021-22.

Solution:

Value Added Statement
For the year ended on 31.03.2022

Particulars	(₹)	(₹)
Generation of Value Added		
Turnover		4,600
Add: Increase in Stock of raw materials, WIP and FG		80
		4,680
Less. Cost of bought-in materials and services		
Raw materials purchased	1,250	
Printing and Stationery	44	
Auditor's remuneration	56	
Rent, rates and taxes	330	
Other expenses	170	
		1,850
Total Value Added		2,830
Distribution of Value Added		
To Employees		
Wages and salaries	654	
Employees state insurance	70	
P.F. contribution	56	
		780
To Government		
Income-tax for the year		552
To Providers of Capital		
Interest on borrowings	80	
Dividends	292	
		372
Re-invested in Business		
Depreciation on plant and machinery		
Retained profit for the year	400	
	576	
		976
Loss on sale of machinery		
		150
Total Disposal of Added Value		2,830

Economic Value Added and Market Value Added

7.9

Economic Value Added (EVA) is a performance measure developed by Stern Stewart & Co. (now known as Stern Value Management) to find the true economic profit generated by a company.

It is also called “economic profit,” and provides a measurement of a company’s economic success (or failure) over a period of time.

Economic profit can be calculated by taking a company’s net after-tax operating profit and subtracting from it the product of the company’s invested capital multiplied by its percentage cost of capital.

Economic Value Added (EVA) is the measure of economic profits after charging both cost of debt and cost of equity capital.

$$\text{EVA} = \text{NOPAT} - (\text{WACC} \times \text{Invested Capital}),$$

$$\text{Where NOPAT} = \text{EBIT} \times (1 - t);$$

EBIT is Earnings Before Interest and Tax. t = tax rate = Tax expenses/EBT

EBT is Earnings Before Tax.

$$\text{Weighted Average Cost of Capital (WACC)} = W_e \times K_e + W_d \times K_d$$

W_e = weight of Equity in capital structure

W_d = weight of Debt in capital structure

K_e = Cost of Equity Capital

K_d = Cost of Debt Capital

For example, B Ltd. had 2021 net after-tax operating profits of ₹5,00,000 and invested capital of ₹50 lakhs at an average cost of 9%, then B Ltd.’s economic profit, EVA would be computed as ₹5,00,000 - (₹ 50 Lakhs × 9%) = ₹50,000.

This ₹50,000 represents an amount equal to 1% of B Ltd.’s invested capital, providing 1% real growth during the year.

Market Value Added

Market value added (MVA), on the other hand, is simply the difference between the current total market value of a company and the capital contributed by investors (including both shareholders and debtholders). It is typically used for companies that are larger and publicly-traded. MVA is not a performance metric like EVA but instead is a wealth metric, measuring the surplus value a company has generated in reflection of its future performance.

As a company performs well over time, investors will likely bid up to the prices of those shares in expectation of future earnings, causing the company’s market value to rise. As this occurs, MVA measures the difference between the company’s market value and the capital contributed by investors represents the excess price tag the market assigns to the company as a result of its expected future operating successes.

Reporting through XBRL (eXtensible Business Reporting Language)

7.10

XBRL stands for ‘eXtensible Business Reporting Language’. XBRL is the open international standard for digital business reporting. It is one of a family of “XML” languages which is becoming a standard means of communicating information between businesses and on the internet.

The basic idea behind XBRL is that instead of treating financial information as a block of text or numeric items, a unique electronically readable tag is attached to each individual financial term. It is not just the data or text that floats around, these individual items move along with an electronic tag. Thus, it is not just the ‘content’ but also the ‘context’ is being transmitted XBRL is the international standard for digital reporting of financial, performance, risk and compliance information, although it is also used for many other types of reporting. It offers major benefits to all those who have to create, transmit, use or analyse such business information.

It has been developed and refined over more than a decade ago and supports almost every kind of conceivable reporting. Moreover, it also provides a wide range of features that enhance the quality and consistency of reports, as well as their usability. It provides benefits in the preparation, analysis and communication of business information and is fast becoming an accepted reporting language across the globe.

The change from paper, PDF and HTML based reports to XBRL ones is a little bit like the change from film photography to digital photography, or from paper maps to digital maps. The new format allows you to do all the things that used to be possible, but also opens up a range of new capabilities because the information is clearly defined, platform-independent, testable and digital. Just like digital maps, digital business reports, in XBRL format,

simplify the way that people can use, share, analyse and add value to the data. Millions of XBRL documents are getting generated every year, replacing older, paper-based reports with more useful, more effective and more accurate digital versions. [Source: www.xbrl.org]

XBRL is today used for multiple purposes, some of which include:

- ⦿ Accounting (individual transactions tagged with XBRL Global Ledger);
- ⦿ Internal Reporting (for drafting of management reports);
- ⦿ External Reporting (for drafting of financial statements, regulatory reports, corporate tax filings, statistical reports etc.)

Meaning of XBRL

XBRL is a language for the electronic communication of business and financial data which is revolutionising the business reporting around the world. The term XBRL includes four terminologies – Extensible, Business, Reporting and Language. These terms are briefly discussed hereunder:

- (a) **Extensible:** This term implies that the user can extend the application of a particular business data beyond its original intended purpose. The major advantage in it is that the extended use can be determined even by

the users and not just the ones who merely prepare the business data. This is achieved by adding tags which are both human and machine readable – describing what the data is.

- (b) **Business:** This platform is relevant to any type of business transaction. It is to be noted that XBRL focus is on describing the financial statements for all kinds of entities.
- (c) **Reporting:** The intention behind promoting the use of XBRL is to have all companies report their financial statements in a consolidated manner using the specified formats.
- (d) **Language:** XBRL is based on ‘eXtensible Markup Language’ (XML). It is one of a family of “XML” languages which is becoming a standard means of communicating information between businesses and on the internet. It prescribes the manner in which the data can be “marked-up” or “tagged” to make it more meaningful to human readers as well as to computers-based system.

Definition of XBRL

As per **Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015**, Extensible Business Reporting Language” (XBRL), means a standardised language for communication in electronic form to express, report or file financial information by the companies under the Act (i.e. Companies Act, 2013).

- **Important XBRL Related Concepts**

1. XML

XML stands for ‘eXtensible Markup Language’. It is a markup language for documents containing structured information. A markup language is a mechanism to identify structures in a document.

XML defines a set of rules for encoding documents in a format that is both human-readable and machine-readable. It is a textual data format with strong support (via Unicode) for different human languages.

There are hundreds and thousands of computers programming languages and one among them is XML. Also XML markup language has types of programming languages. There are nearly 200 types of XML markup languages, and XBRL happens to be one of them. XBRL is XML-based and therefore is expected to be widely available in software applications.

Hyper Text Mark-up Language (HTML) is a markup language for describing web documents. HTML is a cornerstone technology used to create web pages as well as to create user interfaces for mobile and web applications. However, this mark-up language suffered from certain limitations, they being – Limited number of Tags, forgiving Browsers, Browser developers may be tempted to add new tags that only work with their product, Cannot customize layout from client side, Product comparison to mention a few. These limitations of HTML gave birth to XML.

It was the World Wide Web Consortium (W3C) where XML group (originally known as the SGML Editorial Review Board) worked and invented XML. The work was started in 1996. On 10th February, 1998 XML version 1.0 recommendation was released.

2. Taxonomy

Taxonomies are the reporting-area specific hierarchical dictionaries used by the XBRL community. They define the specific tags that are used for individual items of data (such as “net profit”), their attributes and their interrelationships.

As per **Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015**, taxonomy means in XBRL, an electronic dictionary for reporting the business data as approved by the Central Government in respect of any documents or forms indicated in these rules.

Different taxonomies will be required for different business reporting purposes. Some national jurisdictions may need their own reporting taxonomies to reflect local accounting and other reporting regulations. Many different organisations, including regulators, specific industries or even companies, may require taxonomies or taxonomy extensions to cover their own specific business reporting needs.

Taxonomies which have been officially recognized by XBRL International are listed under 'Recognized Taxonomies'. Some of the recognized taxonomies are:

- India Banking GAAP Taxonomy 2010
- BRAZIL GAAP Commercial and Industrial Taxonomy
- Indonesia Stock Exchange (IDX) Taxonomy 2014
- Japan EDINET Taxonomy 2010
- Canadian Financial Reporting According to Canadian GAAP
- General Purpose Financial Reporting for Profit-Oriented Entities Chilean Laws
- Taxonomie Comptes Annuels (TCA) (France)
- US Governance, Risk and Compliance (GRC) Open Compliance and Ethics Group (OCEG) Taxonomy
- Tata Index for Sustainable Human Development Taxonomy
- MIX Microfinance Taxonomy
- RSC – CCI Scoreboard for Corporate Social Responsibility Taxonomy 2010

Myths Regarding XBRL

This section clarifies certain myths regarding XBRL. In other words, it is discussed what XBRL is not:

- XBRL is not a set of Accounting Standards:** It needs to be clearly understood that XBRL does not represent a set of accounting standards, which remain the prerogative of the regulatory standards bodies. XBRL is merely a platform on which reporting standards content will reside and be represented.
- XBRL is not a chart of accounts:** It is not a detailed universal chart of accounts. Formulation of a company's chart of accounts is an exercise conducted by its management with regard to its specific business intricacies. XBRL can facilitate the implementation of such structures through its ability to transport data between disparate software applications that might be used within an organizations operational structures.
- XBRL is not a GAAP translator:** It does not provide a mechanism for facilitating a drilldown of existing GAAP information into lower levels of information that would be necessary for translating financial statements from one GAAP to another. The business-reporting document contains the same GAAP information, be it in an XBRL format or an MS word or PDF format.
- XBRL is not a proprietary technology:** XBRL is freely licensed and available to the public.
- XBRL is not a Transaction Protocol:** XBRL deals with business reporting information, not with data capture at the transaction level. It is designated to address issues related to generation and usage of information contained within business reports and begin at the accounting classification level.

Features of XBRL Reporting

1. Clear Definitions

XBRL allows the creation of reusable, authoritative definitions, called taxonomies, which capture the meaning contained in all of the reporting terms used in a business report, as well as the relationships between all of the terms. Taxonomies are developed by regulators, accounting standards setters, government agencies and

other groups that need to clearly define information that needs to be reported upon. XBRL doesn't limit what kind of information is defined: it's a language that can be used and extended as needed.

2. Testable Business Rules

XBRL allows the creation of business rules that constrain what can be reported. Business rules can be logical or mathematical, or both. These business rules can be used to:

- ⦿ Prevent poor quality information being sent to a regulator or third party, by being run by the preparer while the report is in draft stage.
- ⦿ Prevent poor quality information being accepted by a regulator or third party, by being run at the point that the information is being received. Business reports that fail critical rules can be sent back to the preparer for review and resubmission.
- ⦿ Identifying or highlighting questionable information, allowing prompt follow up, correction or explanation.
- ⦿ Creation of ratios, aggregations and other kinds of value-added information, based on the fundamental data provided.

3. Multi-lingual Support

XBRL allows concept definitions to be prepared in as many languages as necessary. Translations of definitions can also be added by third parties. This means that it's possible to display a range of reports in a different language to the one that they were prepared in, without any additional work. The XBRL community makes extensive use of this capability as it can automatically open up reports to different communities.

4. Strong Software Support

XBRL is supported by a very wide range of software from vendors large and small, allowing a very wide range of stakeholders to work with the standard.

Benefits of XBRL Reporting

The benefits of reporting under XBRL over traditional form are:

1. **Automated Data Processing:** The use of XBRL offers major benefits to the preparers and users of business and financial information by enabling this data to be exchanged and processed automatically by the software. XBRL identification tags reduce and eliminate the need for the data entry operator to manually key data into the software.
2. **More accurate and efficient:** XBRL makes reporting more accurate and more efficient by using comprehensive definitions and accurate data tags. Such data tags allow the preparation, validation, publication, exchange, consumption and analysis of business information of all kinds.
3. **Data Review:** Organisations can use software to automatically validate data electronically received through XBRL. The software can help analyse the data and identify problems that accountants and auditors can examine.
4. **Improved reporting quality:** XBRL provides its users with increased data integrity and uniformity. It also allows for increased transparency of public owned companies' financial records for view by 'interested' parties.
5. **Interchangeable:** Information in reports prepared using the XBRL standard is interchangeable between different information systems in entirely different organisations. This allows for the exchange of business information across a reporting chain. The users who intend to report information, share information, publish information and allow straight through information processing rely on XBRL.

6. **Cost and time savings:** Currently all companies file their reports with regulators using formats like the Portable Document Format (PDF) which has its inherent limitations. Moreover, the costs of sending, receiving, storing, validating and auditing the financial records in this format are comparatively higher. XBRL reduces the involved time and also the cost.
7. **Tagging of transactions:** In addition to allowing the exchange of various business reports, XBRL has the capability to allow the tagging of transactions that can themselves be aggregated into XBRL reports. These transactional capabilities allow system-independent exchange and analysis of significant quantities of supporting data. XBRL allows unique tags to be associated with reported facts, which leads to the following advantages:
 - ⦿ publishing of reports with the confidence that the information contained in them can be consumed and analysed accurately;
 - ⦿ testing of the reports against a set of business and logical rules, in order to capture and avoid mistakes at their source;
 - ⦿ using the information in the way that best suits the users' needs, including by using different languages, alternative currencies and in their preferred style
 - ⦿ providing confidence to the users that the data provided to them conforms to a set of sophisticated pre-defined definitions.

User of XBRL

XBRL is the international standard for digital reporting. It offers benefits to all those who have to create, transmit, use or analyse such information. XBRL is used in many different ways, for many different purposes. The significant users of XBRL include:

1. **Companies:** Companies are required to provide relevant information to various stakeholders, and to accurately move information amongst them.
2. **Not-for-profit Organisations:** Several not-for-profit organisations, like universities, municipalities etc. opt for reporting under XBRL format.
3. **Accountants:** Accountants use XBRL in support of clients reporting requirements and are required to prepare and present financial statements using XBRL.
4. **Analysts:** Analysts that need to understand relative risk and performance.
5. **Investors:** Investors that need to compare potential investments and understand the underlying performance of existing investments.
6. **Regulatory Authorities:** The different regulatory authorities that use XBRL include:
 - ⦿ **Financial regulators** that need significant amounts of complex performance and risk information about the institutions that they regulate.
 - ⦿ **Securities regulators and stock exchanges** that need to analyse the performance and compliance of listed companies and securities, and need to ensure that this information is available to markets to consume and analyse.
 - ⦿ **Business registrars** that need to receive and make publicly available a range of corporate data about private and public companies, including annual financial statements.
7. **Government agencies:** Government agencies that are in the process of simplifying the process of businesses reporting, reducing red tape (either by harmonising data definitions or consolidating reporting obligations, or both), or improving government reporting by standardising the way that consolidated or transactional reports are prepared.

8. **Tax authorities:** The tax authorities need financial statements and other compliance information from companies in order to process and review their corporate tax affairs.
9. **Statistical and monetary policy authorities:** These authorities that need financial performance information from many different organisations.
10. **Specialist Data Providers:** Specialist data providers that use published information for the purpose of creating comparisons, ratings and other value-added information products for various market participants.

XBRL International

XBRL is managed by **XBRL International Inc.(XII)**. XBRL International is a global not-for-profit consortium of approximately 600 companies and agencies worldwide working together to build the XBRL language, and promote and support its adoption. It is comprised of jurisdictions which represent countries, regions or international bodies and which focus on the progress of XBRL in their area. The number of established jurisdictions has grown from 7 to 22 over the years. Around 5 jurisdictions, including India are presently in the provisional stage.

It operates mainly through the XBRL Steering Committee and has over the years produced a variety of specifications and taxonomies for digitizing financial information in accordance with the accounting rules and other regulations prevailing in different countries. The consortium members meet periodically in international conferences and conduct committee work regularly throughout the week.

This collaborative effort began in 1998 and has produced a variety of specifications and taxonomies to support the goal of providing a standard, XML-based language for digitizing business reports in accordance with the rules of accounting in each country or with other reporting regimes such as banking regulation or performance benchmarking

Presently, XBRL is used around the world, in more than 60 countries.

XBRL in India

The XBRL global initiative is led by a non-profit organisation called XBRL International Inc. (XII), which has members from various agencies from more than 164 countries. In India, the Ministry of Corporate Affairs (MCA) has switched over its reporting format to XBRL for Annual Report and Cost Audit report filings. The Reserve Bank of India (RBI) has also moved to XBRL reporting for the Banking Industry while the Securities & Exchange Board of India (SEBI) has mandated reporting by Mutual Funds through XBRL mode. The responsibilities of forming a XBRL national jurisdiction and the implementation of the standards for financial reporting in India have been entrusted to the Institute of Chartered Accountants of India (ICAI).

XBRL India

XBRL India is the Indian Jurisdiction of XBRL International. Its main objective is to promote and encourage the adoption of XBRL in India as the standard for electronic business reporting in India. XBRL India is working closely with regulators, stock exchanges and software companies for promotion of XBRL as a Standard Business Reporting Language. XBRL India is developing taxonomies for specific industries in consultation with the respective regulators viz. Insurance, Power and NBFCs.

Adoption of XBRL in India

XBRL adoption is widespread in India, with the Ministry of Corporate Affairs (annual report and cost audit report filings), the Reserve Bank of India and the Securities and Exchange Board (mutual funds) also having XBRL reporting mandates. The implementation and regulatory framework of XBRL in India is governed by these regulatory agencies.

[A] Adoption of XBRL by Ministry of Corporate Affairs (MCA)

The Ministry of Corporate Affairs (MCA) mandated submission of XBRL in 2011. It is a known fact that introducing new systems requires some time for the market to adapt and settle and it is more challenging when the system itself undergoes significant change before it has been well accepted. The journey of XBRL adoption by MCA brings across the experiences – initial startup, significant change and then stability.

Before the issuance of Companies Act, 2013

In India, the Ministry of Corporate Affairs (MCA) for the first time made it mandatory for certain class of companies to file their Balance Sheets and Profit and Loss Account for the year 2010-11 onwards by using XBRL taxonomy by issuing Circular No. 16/2012 dated 6.7.2012. As per the **Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011**, the following classes of companies were required to file the Financial Statements in XBRL Form only from the year 2010-2011:

- (i) All companies listed in India and their subsidiaries;
- (ii) All companies having a paid up capital of ₹ 5 crore (₹ 50 million) and above; or
- (iii) All companies having turnover of ₹ 100 crore (₹ 1 billion) or above, excluding power and banking companies, insurance companies, Non-Banking Financial Companies and overseas subsidiaries of these companies.

The circular also contained, by way of an annexure, a host of valuable information about XBRL in the form of Frequently Asked Questions (FAQs) about XBRL. As per the said circular, taxonomies for Indian companies are developed based on the requirements of Schedule VI of Companies Act, Accounting Standards, SEBI Listing requirements, etc. Taxonomies for manufacturing and service sector (referred as Commercial and Industrial, or C&I) and banking sector, is acknowledged by XBRL International. The Institute of Chartered Accountants of India (ICAI), the standards setting body developed taxonomy for Commercial and Industrial companies as per the provisions of Revised Schedule VI to the Companies Act, 1956. It has been developed as per the IFRS architecture 2011.

After the issuance of Companies Act, 2013

In exercise of the powers conferred by sections 469(1) and 469(2) read with section 398 of the Companies Act, 2013, and in supersession of the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011, except as respects things done or omitted to be done before such supersession, the Central Government issued the **Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015** on 09.09.2015.

Companies required to follow XBRL Reporting

The following class of companies shall file their financial statement and other documents under section 137 of the Companies Act, 2013, with the Registrar in e-form AOC-4 XBRL given in Annexure-I for the financial years commencing on or after April 1, 2014 using the XBRL taxonomy given in Annexure II, namely:

- (i) all companies listed with any Stock Exchange(s) in India and their Indian subsidiaries; or
- (ii) all companies having paid up capital of rupees five crore or above;
- (iii) all companies having turnover of rupees hundred crore or above; or
- (iv) all companies which were hitherto covered under the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011.

Companies exempt from XBRL Reporting

As per the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2015 the following companies are exempt from XBRL filing of their financial statement and other documents:

- (i) Banking companies
- (ii) Insurance companies
- (iii) Non-Banking Financial companies.

Power Sector Companies are excluded from exemption list vide Companies (Filing of Documents and Forms in Extensible Business Reporting Language), Amendment, Rules, 2017 Dated 6th November 2017. So all Power Sector companies are now required to file their financials and other documents as per XBRL Taxonomy.

XBRL & Filing of Cost Audit Report

A company required to furnish cost audit report and other documents to the Central Government under Section 148(6) of the Companies Act, 2013 and rules made thereunder, shall file such report and other documents using the XBRL taxonomy given in Annexure-III to the said Rule for the financial years on or after April 1, 2014 in e-Form CRA-4 specified under the Companies (Cost Records and Audit) Rules, 2014

[B] Adoption of XBRL by Reserve Bank of India (RBI)

The Reserve Bank of India (RBI), India's central bank, oversees a host of critical activities including monetary policy, bank supervision and foreign exchange management. RBI is internationally well regarded for its regulatory acumen that played a key role in the Indian financial sector remaining virtually unscathed during the Asian Financial Crisis and the ongoing international banking and credit crisis. Reserve Bank of India is responsible for implementing the XBRL standard for banks' reporting. RBI had opted for XBRL as the reporting technology for the Basel II reporting norms so as to capture quality information that can be reused across the regulatory functions. Within RBI, XBRL implementation is being regularly monitored by a High Level Steering Committee appointed by the Governor.

[C] Adoption of XBRL by Securities and Exchange Board of India (SEBI)

Securities and Exchange Board of India (SEBI) is in the process of setting up a SEBI Unified Platform for Electronic Reporting and Dissemination (SUPER-D), which will be a XBRL technology based platform for reporting by listed companies, Mutual Funds and other SEBI registered intermediaries. The platform will also be used to disseminate requisite information relating to listed companies, mutual funds and other intermediaries, to the public. SEBI has started a XBRL Pilot Project for filing / reporting by Mutual Funds with SEBI. Under this XBRL MF Pilot Project, SEBI invited all the registered Mutual Fund/Assets Management Companies to participate on voluntary basis as filers for doing XBRL filings of the specified reports to SEBI. These XBRL filings have to be done in addition to the filings under the current system.

[D] Adoption of XBRL by Bombay Stock Exchange (BSE)

As a part of regulatory compliances, BSE collects data/disclosures in specified formats from its listed companies. With a view to making reporting more accurate and more efficient, BSE has moved towards the XBRL based reporting. BSE became the first stock exchange in India to introduce and implement XBRL based reporting in association with its partner in this endeavor, Microvista Technologies. With implementation of XBRL, BSE is in the club of international stock exchanges that have implemented XBRL based reporting.

Quarterly Earnings Call Management

7.11

Keeping in line with continuous improvement, BSE has now made it mandatory for filing of Corporate Governance report and Shareholding Pattern in XBRL mode. Moreover, the BSE is making its taxonomies available online to promote the development of software by the private sector.

Concept of Earnings Call

An earnings call (also known as Earnings Conference Call) is a conference call (typically held in the form of a teleconference or a webcast) during which the management of a company announces and discusses the financial results of a company for a given quarter or a year. The calls are usually preceded or accompanied by a press release containing a summary of the financial results. Typical participants are investors, equity analysts, and business journalists. Earnings calls of large companies are often heavily covered in business news. The recording of the call as well as a transcript of the same are normally hosted in the official website of the company.

• Frequency and Timing of Earnings Call

Earning calls are not legally mandated. So, a company may not actually have any earnings call. The culture is, however, more prevalent in western countries and slowly becoming popular in India as well. According to the National Investor Relations Institute, USA, 92% of companies represented by their members conduct earnings calls. In India also, most of the large publicly listed companies organise earnings conference call. There is no general requirement for how far in advance notice of a call must be given. However, to ensure a fruitful discussion and to reach the target audience as much as possible, the call is generally announced a few days or weeks in advance. The schedule of the call (along with the link of the meet) is generally posted by the company in the Investor Relations section of their website.

• Structure of an Earnings Call

Normally, an earnings call is found to have the following three parts.

a. Safe Harbour Statement

A typical earnings call starts with the safe harbour statement made by the company's management. The safe harbour statement generally warns the participants of the earnings presentation that the discussion of financial results may include forward-looking statements. Thus, the estimates of results based on the forward-looking statements may substantially differ from the actual results.

b. Presentation and Discussion of the Financial Results

After the safe harbour statement, the managers take over the call. In an earnings call, generally, a company is represented by C-level executives. Depending on a company and its corporate hierarchy,

the number of participating executives may vary. However, the two key executives that are always present in the earnings call are the chief executive officer (CEO) and chief financial officer (CFO). The executives present and discuss the financial results for the given reporting period (quarter or year). In addition, the managers provide an overview of the company's upcoming goals and milestones, as well as discuss how the plans will impact the future financial performance of the company.

c. Question and Answer Session

The final section of the earnings call is reserved for the Q&A session. During this session, investors, analysts, and other participants in the call have an opportunity to ask the management questions regarding the presented financial results. The representatives of the management answer the questions based on the data available with them. However, they may decline or defer their answers for certain questions.

- **Importance of Earnings Call**

Earnings calls are considered one of the key resources for investors and equity analysts. The information provided during earnings calls can be incorporated into the fundamental analysis of a company. In fundamental analysis, analysts can combine the information obtained during the event with the information presented in the management, discussion, and analysis (MD&A) section of the company's reports.

The importance of earnings calls is acknowledged by the fact that investors frequently plan their trades close to the date of an upcoming conference. Equity analysts use the information provided during such events to update their earnings estimates.

Due to this importance to the investors and analysts, now-a-days earnings calls are recognised as an important tool for corporate reporting.

[**Note:** Students may follow the attached link to access the Earnings Conference Call Recordings and Transcript of the Call of Bajaj Auto:

[https://www.bajajauto.com/investors/financial-and-operational-performance\]](https://www.bajajauto.com/investors/financial-and-operational-performance)

Exercise

A. Theoretical Questions:

⊙ Multiple Choice Questions

1. The three pillars of sustainability are often referred to as
 - a. Planet – People – Profit
 - b. People – Planet – Profit
 - c. People – Profit – Planet
 - d. People – Plant – Profit
2. External benefits of sustainability reporting can include
 - a. Mitigating – or reversing – negative environmental, social and governance impacts
 - b. Improving reputation and brand loyalty
 - c. Enhanced perception on organisation's value
 - d. All of the above
3. International Integrated Reporting Council (IIRC) launched IR as a global framework in _____.
 - a. November 2013
 - b. December 2012
 - c. November 2012
 - d. December 2013
4. As per the Companies (Filing of Documents and Forms in Extensible Business Reporting Language) Rules, 2011, the following classes of companies were required to file the Financial Statements in XBRL Form only from the year 2010-2011
 - a. All companies listed in India and their subsidiaries
 - b. All companies having a paid up capital of ₹ 5 crore (₹ 50 million) and above
 - c. All companies having turnover of ₹ 100 crore (₹ 1 billion) or above, excluding power and banking companies, insurance companies, Non-Banking Financial Companies and overseas subsidiaries of these companies
 - d. Any of the above
5. A company required to furnish cost audit report and other documents to the Central Government under Section 148(6) of the Companies Act, 2013 and rules made thereunder, shall file such report and other documents using the XBRL taxonomy given in Annexure-III to the said Rule for the financial years on or after April 1, 2014 in e-Form _____ specified under the Companies (Cost Records and Audit) Rules, 2014
 - a. CRA-2
 - b. CRA-3
 - c. CRA-4
 - d. CRA-1

Answer:

1.	2.	3.	4.	5.
b.	d.	d.	d.	c.

⊙ **Fill in the Blanks**

1. XBRL is managed by _____.
2. XML stands for _____.
3. XBRL stands for _____.
4. Economic Value Added (EVA) is a performance measure developed by _____ to find the true economic profit generated by a company.
5. _____ is the accounting surplus generated by the business and distributable not only to the owners or the shareholders but also to other stakeholders i.e., the lenders, the employees and the government.

Answer:

1.	XBRL International Inc.	2.	eXtensible Markup Language
3.	eXtensible Business Reporting Language	4.	Stern Stewart & Co.
5.	Value Added		

⊙ **Short Essay Type Questions**

1. State the benefits of Sustainability Reporting.
2. Define Human Resource Reporting.
3. List the types of HR reports.
4. Explain the concept of Economic Value Added and Market Value Added.
5. Describe Quarterly Earnings Call Management.
6. Define the three pillars of sustainability reporting and briefly state the role of GRI in this context.
7. Present an abridged format of sustainability reporting and the principles to be complied as per national voluntary guidelines.
8. How does Integrated reporting highlight value creation?
9. Describe the components of value added statement and discuss its significance.
10. Distinguish EVA from MVA and compute EVA and MVA with arbitrary figures.
11. What is XBRL? Enumerate the benefits of XBRL.
12. Write a note on Earnings Conference Call.

⊙ Essay Type Questions

1. Explain the concept of Quadruple Bottom Line Reporting as an extension of Triple Bottom Line Reporting.
2. Explain how through Sustainability Reporting an organisation identifies its impact on the economy, environment and the society and assesses its contribution for sustainable development.
3. Explain how Integrated Reporting provides a holistic report of value creation by considering human, social, manufactured, natural and intellectual capital as well as financial capital.
4. What a company is legally required to comply in regard CSR? What activities are accepted under CSR? What particulars are required to be reported under CSR Rules?
5. Discuss the ESG criteria of corporate reporting.
6. Briefly discuss different types of Human Resource Reporting.
7. Explain the significance of Value-Added Statement, EVA and MVA.
8. Explain how XBRL provides a digital reporting format that transmits not only “Content” but also “Context”.
9. What service is rendered by “Earnings Conference Call”?
10. What is CSR? For which companies CSR is mandatory? What are the CSR provisions to be complied with and what are the CSR activities in India? How is CSR reporting made?
11. What criteria are tested in ESG?
12. Briefly discuss on different types of human resource reporting.