Sustainability Audit; ESG Rating; Emerging Mandates from Government and Regulators

Lesson 19

KEY CONCEPTS

■ Sustainable Development ■ Sustainability Reporting ■ Sustainability Audit ■ Standards on Sustainability ■ ESG Ratings ■ ESG Rating organisations ■ Key Performance indicators ■ SEBI Regulations on ESG Reporting in India ■ Developments across the world on ESG and reporting requirements

Learning Objectives

To understand:

- Sustainable Development, Sustainability Reporting and Sustainability Audit – Process, Importance and Standards
- ESG Ratings – Organizations, Methodology and Importance
- Emerging Mandates from Government and Regulators in India and Across the World

Lesson Outline

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

PART A. SUSTAINABILITY AUDIT

INTRODUCTION TO SUSTAINABLE DEVELOPMENT, BUSINESS SUSTAINABILITY, ACCOUNTABILITY REPORTING AND AUDIT

Sustainable Development

Sustainable development is a relatively new concept and gained momentum in the late 1980s. The UN's Brundtland report defined it as ***"development that meets the needs of the present without compromising the ability of future generations to meet their own needs".*** Theoretically, the concept has its ties with ecological modernization which opines that economic growth and ecological concerns can be favorably combined. Sustainability recognizes the interdependence of economic, social and environmental factors for all round development.

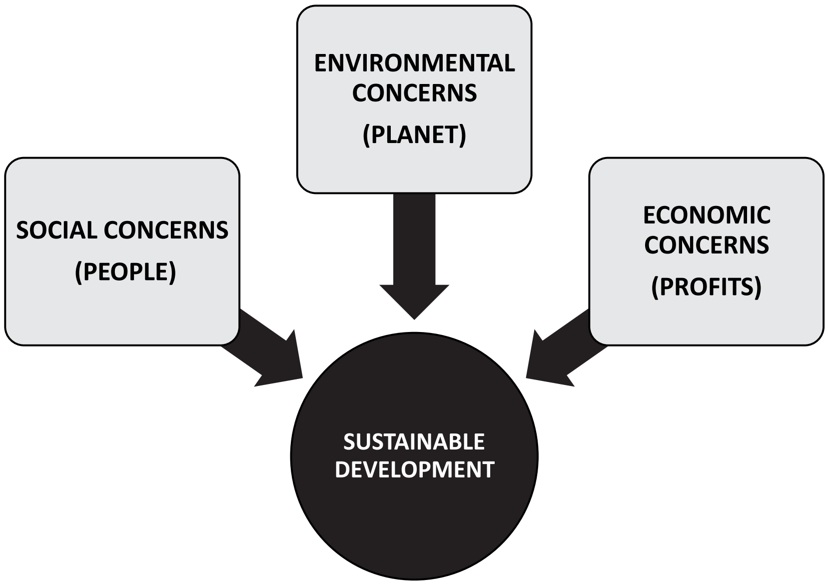

FIG. 19.1 – Understanding the Concept of Sustainable Development

For business, sustainability is defined in several ways. For example, the 2010 United Nations' (UN) publication "Corporate Governance in the Wake of the Financial Crisis" broadly describes business sustainability as

> ***"Conducting operations in a manner that meets existing needs, without compromising the ability of future generations to meet their needs and has regard to the impacts that the business operations have on the life of the community in which it operates and includes environmental, social and governance issues."***

The UN report further links business sustainability to corporate governance and suggests that sustainability information, i.e. the information pertaining to social, governance, ethical, and environmental concerns be incorporated with financial information in a single report that also includes professional assurance on sustainability information.

> *Corporate sustainability can be understood as conducting business to create value for present shareholders while protecting the rights of future shareholders and stakeholders.*

Sustainability Reporting

The concept of sustainable development fostered reporting on sustainability as a response of organisations towards growing concerns about environmental degradation and social and ethical issues in business practices. In the late 1980s, the first voluntary environmental reports were published. Companies with environmentally sensitive operations, especially large polluters, started to publish sustainability reporting to showcase their efforts towards sustainable development and Companies with socially sensitive operations started to develop corporate social responsibility (CSR) reporting. The concept evolved over time through the efforts of various organizations, governments, and experts in the fields of sustainability and environmental management.

Sustainability Audit

Reporting on sustainability paved the way for emergence of sustainability audit. The concept of sustainability audit has evolved over the years as society's understanding of sustainability has expanded and as organizations have become increasingly aware of their impact on the environment and society besides their bottom-line.

The wave of financial mishaps in the early 2000s, the 2007–2009 global financial crisis, and subsequent regulatory responses have stimulated considerable interest in business sustainability, corporate governance, ethical, and corporate accountability. Businesses and professional organizations worldwide have also responded by developing a business sustainability framework consisting of five overriding dimensions of economic, governance, social, ethical, and environmental (EGSEE) performance as an improvement over the "People, Planet and Profits" agenda.

A program or an activity is considered sustainable if it meets all of the following criteria:

- **Creates economic value**
- **Increases public wealth with mechanisms for its proper distribution**
- **Socially justified**
- **Environmentally sound**
- **Ethically conducted**
- **Conforms to all applicable laws, rules, and regulations**

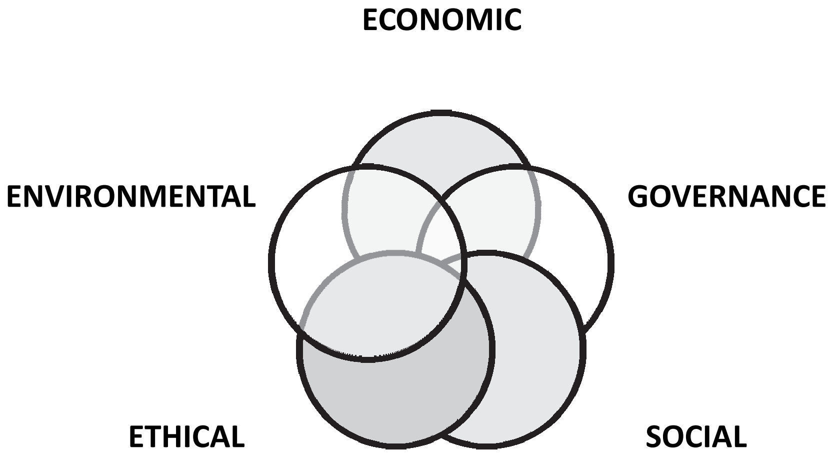

FIG. 19.2 – Dimensions of Business Sustainability

MEANING OF SUSTAINABILITY AUDIT

Sustainability Audit is a comprehensive assessment of an organization's environmental, social and economic impacts. The purpose of the audit is to identify areas where the organization can improve its sustainability performance and minimize its negative impacts on the environment, society and economy. The audit typically covers areas such as energy use, greenhouse gas emissions, waste management, water usage, product sourcing, supply chain management, employee relations, and community engagement. The outcome of a sustainability audit is used to develop a sustainability strategy and set goals for ongoing sustainability performance improvement. (*Source: https://www.esgthereport.com/*)

A sustainability audit is a process that evaluates the performance of an organization in relation to its sustainable development goals. It assesses how well a company performs in the three areas of social, environmental and economic aspects and is thus also referred to as a "triple bottom line" assessment.

It includes an analysis of both internal and external factors affecting the organization's sustainability. In addition to tangible aspects like energy use or recycling rates, factors such as climate change legislation or customer preferences are also considered. The purpose of such an evaluation is not only for companies to become more sustainable, but also to ensure they are meeting their stakeholders' expectations through increased transparency and accountability.

A sustainability audit is a look inside the company to determine the most powerful way to practice sustainability.

A sustainability audit is a targeted evaluation of a company's current sustainable workplace practices such that by identifying the current environmental impact, the company can set out initiatives for executing and promoting improved sustainable measures.

FIG. 19.3 – Sustainability Audit

RISE / EVOLUTION OF SUSTAINABILITY AUDIT

The concept of sustainability audit has evolved over the years as society's understanding of sustainability has expanded and as organizations have become increasingly aware of their impact on the environment and society.

Initially, sustainability audits focused primarily on environmental issues such as energy use, waste management and water usage. Over time, the scope of sustainability audits has expanded to include social and economic factors, such as human rights, labor practices, community engagement and economic performance.

The rise of corporate sustainability reporting and the increasing demand for transparency from stakeholders have also driven the evolution of sustainability audits. Many organizations now use sustainability audits as a way to measure and report on their sustainability performance, and to demonstrate their commitment to sustainability.

Finally, technological advancements and the availability of new sustainability data and tools have also contributed to the evolution of sustainability audits. For example, organizations can now use data analytics and machine learning to more accurately measure and monitor their sustainability performance, and to identify areas for improvement.

The exact founder of sustainability audits is not clear, however, some organizations and initiatives played a key role in the development and promotion of sustainability audits, including the United Nations Environment Programme (UNEP), the World Business Council for Sustainable Development (WBCSD), and the Global Reporting Initiative (GRI). These organizations helped to establish sustainability reporting standards, guidelines, and best practices, and provided support and guidance to organizations seeking to improve their sustainability performance.

For decades, increasing attention has been given to the concept of Environmental, Social and Corporate Governance (ESG) by both the public and private sectors. Companies are no longer only evaluated from an economic perspective, but also from a societal and environmental one. The rising importance of sustainability is illustrated by the amount of standard-setting initiatives that have been developed over the years. Some well-known examples include the ISO 26000 standard on Social Responsibility, the Global Reporting Initiative, the implementation guidelines developed by Sustainability Accounting Standards Board, and the universal sustainability development goals (SDG's) set by the UN Global Compact.

Sustainability reflects on the impact an organization has on society and the environment, whilst making business decisions and conducting its activities. It is a broad concept which covers the areas of Corporate Governance, Human Rights, Labor Practices, Environment, Operating Practices, Customer Issues, Community Involvement and Development. It is Important to note is that each organization can define its own areas of focus depending on its size, location, business activities, and stakeholder's expectations.

A sustainability process flows throughout all hierarchical levels of an organization, from its strategic goals down to its operational practices. Given the overarching character of the concept, it is essential that sustainability initiatives are consistently managed, meaning that organizations should evaluate their ESG impacts, risks and opportunities across the entire value chain. When assessing ESG-risks, organizations should think beyond the 'traditional' reputational risks. Issues and malpractices related to ESG can pose environmental, compliance, financial and reputation risks that can severely damage the company.

For banks and insurers, the financial risks of climate change are in sharp focus as regulators set out expectations for stress testing, ESG disclosures and climate risk management. Asset and fund managers are being required by regulators and investors to embed sustainable investment throughout their businesses and to consider the full spectrum of ESG.

FRAMEWORK OF SUSTAINABILITY AUDIT

Measuring sustainability is not an easy task nor is the process of verifying sustainability related information. Although traditional financial auditing is prepared to deal with accounting systems, processes and controls, to meaningfully analyze sustainability data and provide assurance on sustainability reports might require setting up teams of experts with diverse backgrounds. Particularly important in this regard is the knowledge of the methods used in performance auditing and environmental auditing. Besides auditing guidelines and subject matter, it might be good if auditors are also knowledgeable about stakeholder engagement processes to fully understand and appreciate the scope of the audit.

A sustainability audit typically follows a structured framework that includes the following steps:

Planning and Preparation: This involves defining the scope and objectives of the audit, identifying stakeholders, and preparing a plan for conducting the audit.

Data Collection and Analysis: This involves gathering data on the organization's environmental, social, and economic impacts, as well as reviewing policies, procedures, and practices related to sustainability.

Assessment and Evaluation: This involves evaluating the data collected and analyzing the organization's sustainability performance. This step typically includes benchmarking the organization's performance against industry standards and best practices.

Report Generation: This involves summarizing the findings of the audit and presenting recommendations for improvement.

Implementation and Monitoring: This involves taking action on the recommendations made in the report and monitoring progress to ensure that sustainability goals are met over time.

Different organizations may use slightly different frameworks for sustainability audits, but the basic steps are generally consistent across different approaches. The choice of framework often depends on the organization's specific sustainability goals and the resources available for conducting the audit.

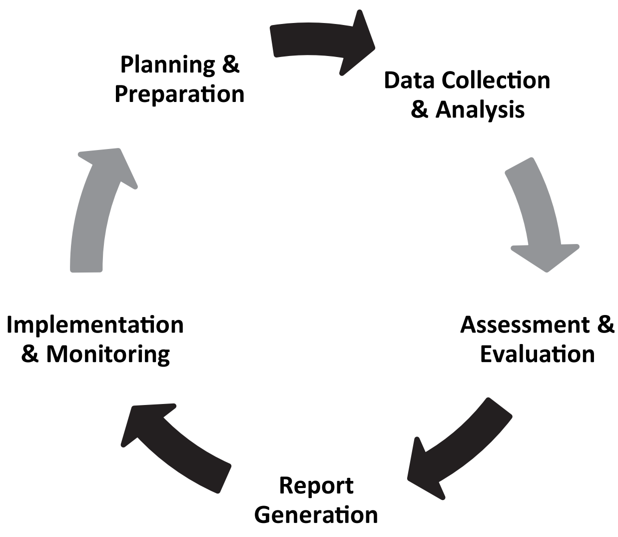

FIG. 19.4 – Planning for Sustainability Audit

PROCESS OF CONDUCTING SUSTAINABILITY AUDIT

The process of a sustainability audit typically begins with assessing the culture of the company, which includes things such as understanding how open employees are with regard to discussing their social responsibility practices or what sort of training they have received on these issues.

Once the culture is assessed, the auditors will explore the related issues minutely including looking at the social responsibility results.

The auditor will typically look at the sustainability strategy, which is a formal document that sets out sustainability aims and objectives. The audit team may also consider other documentation, such as contracts with suppliers or regulatory filings to determine what emphasis the company places on sustainability activities.

After this review is conducted, the auditor will look at how well the company has executed these sustainability activities. The auditor will look at things such as what results have been achieved from efforts regarding sustainability, whether or not there have been any negative effects from CSR/ESG initiatives and if infractions have occurred in the area of social responsibility.

The audit team may also evaluate whether a company's policies align with their stated sustainability initiatives. For example, reviews of supplier relationships may look at the human rights records of suppliers.

Once this review is complete, the auditors will provide a report on their findings to management team and the board of directors. The sustainability audit also provides recommendations for how companies can improve sustainable business practices.

The final product of the sustainability audit is a scorecard that provides an evaluation of how well the company is performing in relation to its social responsibility goals.

A sustainability audit may be conducted in the following manner:

Defining the scope and objectives of the audit: This involves determining what aspects of the organization's operations will be included in the audit and what sustainability goals the audit is intended to achieve.

Gathering data: This involves collecting data on the organization's environmental, social, and economic impacts, as well as reviewing policies, procedures, and practices related to sustainability. This may include analyzing data from existing sustainability reports, conducting surveys of employees and stakeholders, and reviewing internal documents and data.

Conducting assessments and evaluations: This involves evaluating the data collected and analyzing the organization's sustainability performance. This step typically includes benchmarking the organization's performance against industry standards and best practices, and identifying areas for improvement.

Preparing a report: This involves summarizing the findings of the audit and presenting recommendations for improvement. The report should be clear, concise, and actionable, and should be designed to engage and inform stakeholders.

Implementing and monitoring actions: This involves taking action on the recommendations made in the report, and monitoring progress over time to ensure that sustainability goals are met. This may involve developing and implementing new sustainability policies and procedures, investing in new technologies or processes, and engaging with stakeholders to drive sustainability improvements.

Reporting and communicating: Report on the findings of the sustainability audit, including the results of the performance assessment, areas for improvement, and the action plan. Communicate the results to stakeholders, including employees, customers, shareholders, and the wider community.

The specific details of how to conduct a sustainability audit will depend on the size and complexity of the organization, as well as its specific sustainability goals. It may be necessary to engage external experts or consultants to assist with certain aspects of the audit, such as data collection and analysis, or to provide expert advice on sustainability best practices.

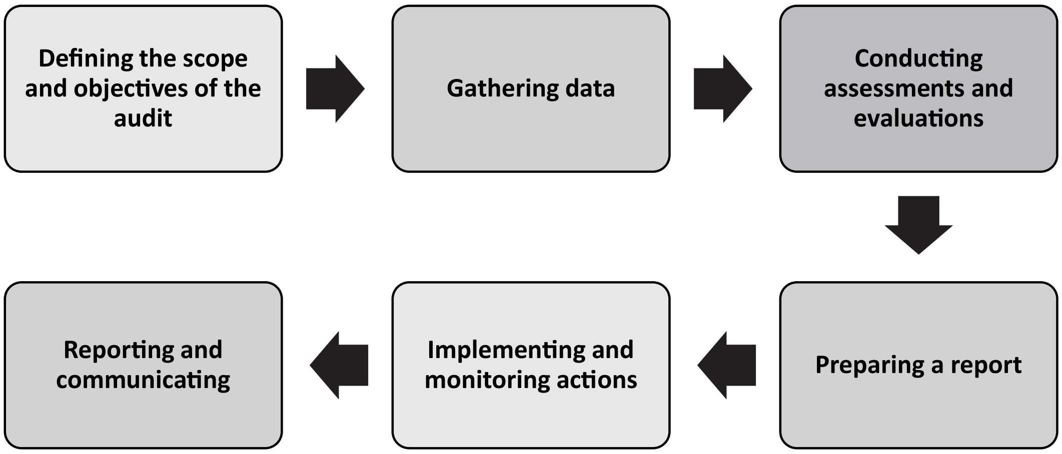

FIG. 19.5 –Sustainability Audit Process Flow

CASE STUDY

Case Study: Sustainability Audit of a Manufacturing Company

A manufacturing company based in Europe wanted to assess its sustainability performance and identify areas for improvement. The company engaged a sustainability consulting firm to conduct a comprehensive sustainability audit.

Define the scope: The scope of the audit included the company's operations, supply chain, and product life cycle. The audit focused on the company's impacts on the environment, including energy and resource use, waste generation, and greenhouse gas emissions, as well as its social and ethical responsibilities.

Gather information: The audit team collected data on the company's energy and resource use, waste generation, and emissions, as well as information on the company's social and ethical practices, including labor rights, human rights, and community engagement.

Assess performance: The audit team evaluated the company's sustainability performance using a set of sustainability indicators and benchmarks, including the Global Reporting Initiative (GRI) Standards and the ISO 26000. The team found that the company was performing well in some areas, such as energy efficiency and waste management, but that there were opportunities for improvement in other areas, such as emissions reduction and community engagement.

Identify areas for improvement: Based on the findings of the performance assessment, the audit team identified several areas for improvement, including reducing greenhouse gas emissions, improving community engagement, and reducing the use of hazardous materials in the supply chain.

Develop action plan: The audit team developed an action plan that included a set of specific, measurable, and achievable goals and targets, as well as a time-line for implementation. The action plan also included a monitoring and reporting framework to track progress towards the sustainability goals.

Implement and monitor: The company implemented the action plan, and the sustainability consulting firm provided ongoing support and monitoring to help the company achieve its sustainability goals.

Report and communicate: The company reported on the findings of the sustainability audit and the results of the action plan, including a comprehensive sustainability report that was made available to stakeholders, including employees, customers, shareholders, and the wider community.

The sustainability audit was a valuable tool for the manufacturing company to understand its sustainability performance, identify areas for improvement, and take action to enhance its sustainability. The audit helped the company to demonstrate its commitment to sustainability, improve its reputation and brand image, and foster innovation and competitiveness.

Example of Companies undertaking Sustainability Audit

Many companies around the world conduct sustainability audits as part of their commitment to sustainability and responsible business practices. Here are a few examples:

Unilever: Unilever, a consumer goods company, has been conducting sustainability audits for many years, and uses the results to drive continuous improvement in its sustainability performance. The company publishes an annual sustainability report that includes a comprehensive analysis of its sustainability performance.

Nike: Nike, a multinational sportswear company, regularly conducts sustainability audits to assess its performance on a range of ESG issues, including labor standards, environmental impact, and product sustainability. The company also publishes a sustainability report that provides detailed information on its sustainability performance and initiatives.

Google: Google, a technology company, regularly conducts sustainability audits to assess its environmental impact, and to identify opportunities for improvement. The company has set a number of ambitious sustainability goals, including achieving 100% renewable energy and becoming carbon neutral.

Coca-Cola: Coca-Cola, a multinational beverage company, conducts regular sustainability audits to assess its performance on a range of ESG issues, including water use, waste management, and community engagement. The company also publishes an annual sustainability report that.

UNDERSTANDING ABOUT SUSTAINABILITY AUDIT REPORT

A sustainability audit report is a comprehensive document which provides a detailed analysis of an organization's sustainability performance. The report assesses the organization's environmental, social, and governance impacts and identifies areas for improvement. It is used to help the organization understand its sustainability performance and make informed decisions about how to improve it further.

Sustainability audit report is an important tool for organizations to understand and improve their sustainability performance. It is usually prepared by an independent third-party auditor, to ensure its accuracy and credibility. The report may also be made available to the public, and published on the organization's website or included in its annual sustainability report, to demonstrate its commitment to transparency and accountability.

The report typically includes the following key elements:

Executive Summary: This section provides a high-level overview of the report, including the purpose of the audit, the key findings, and the main recommendations.

Background: This section provides context for the audit, including information about the organization, its sustainability goals and objectives, and the scope of the audit.

Methodology: This section outlines the methodology used to conduct the audit, including the data sources, the stakeholders consulted, and the tools and techniques used to gather and analyze the data.

Key Findings: This section presents the main findings of the audit, including a detailed analysis of the organization's sustainability performance on key ESG issues, such as energy use, greenhouse gas emissions, waste management, water use, employee relations, community engagement, and compliance with relevant laws and regulations.

Recommendations: This section provides specific recommendations for how the organization can improve its sustainability performance in the areas identified by the audit. The recommendations may include specific actions that the organization can take, such as reducing energy use, improving waste management practices, or enhancing employee engagement programs.

Implementation Plan: This section outlines a plan for implementing the recommendations from the audit, including specific goals, timelines, and responsibilities.

Conclusion: This section provides a summary of the main findings and recommendations from the audit, and reiterates the organization's commitment to sustainability.

CASE STUDY

Are the Olympic Games sustainable?

(*Source: https://www.mountainwilderness.org*)

Researchers at the University of Lausanne, Switzerland, recently reviewed the social, environmental and economic sustainability of 16 editions of the Summer and Winter Olympic Games from Albertville 1992 to Tokyo 2020 and found that in all three areas, there has been a steady decline in performance, as economic benefits have gone down and environmental costs have risen. This has occurred, despite the fact that the International Olympic Committee (IOC) and its host cities have been making ever more grandiose environmental claims.

'That the Olympics be sustainable is a requirement laid down in the contract between Olympic host cities and the International Olympic Committee (IOC). Sustainability is one of the three pillars of the IOC's road map for the future, Olympic Agenda 2020, and features prominently in its continuation, Olympic Agenda 2020+5. The IOC's sustainability strategy aims to "ensure the Olympic Games are at the forefront in the field of sustainability"

In 2018, the United Nations passed a resolution that declared *"sport as an enabler of sustainable development"* and signed a letter of intent highlighting the contribution of the Olympic Games to the UN Sustainable Development Goals (SDGs).'

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Researchers used a conceptual model with the above-mentioned three dimensions of sustainability, dividing each into three indicators and measuring sustainability via a score card

Fig. 1: Definition and conceptual model of sustainability in the Olympic Games

The definition and model assign equal weight to the classic three dimensions of sustainability (inner ring--ecological, social and economics), evaluating them with three indicators each (outer ring).

(*Source: https://www.mountainwilderness.org*)

It turned out that Winter Olympics in Sochi in 2014 and the Summer Olympics in Rio de Janeiro in 2016 had the lowest sustainability scores. The latter displaced a large number of residents for Olympics-related development and provided the excuse for comprehensive legal exceptions. The resulting sports venues remained poorly used after the event, and cost overruns were the highest.

Data show that: ‘There are no Olympics that score highly in all or even the majority of the indicators. Cities such as Vancouver and London, which have marketed themselves as models of sustainable Olympic Games and have advised other Olympic hosts on sustainability, score below average’.

The study concludes that the rhetoric of sustainability does not match actual sustainability outcomes and sustainability in the Olympics is clearly declining over time as Salt Lake City (2002) and Albertville (1992) scored higher than all the rest.

CASE STUDY

Sustainability in the spotlight at Beijing Olympics 2022

Source: https://olympics.com

"As the world is racing to avoid the catastrophic effect of climate change, sustainability and climate action have a very central place in our Strategy for the future of the Olympic Movement," said Marie Sallois, IOC Director for Sustainability, in her opening remarks at the joint IOC Beijing 2022 Daily Briefing. "*Our aim is to ensure the Games are at the forefront of sustainability and act as a catalyst for sustainable development for their host. We also want to use the visibility of sport and the Olympic Games to showcase and promote innovative and sustainable solutions."*

"The concepts of 'green Games' and sustainability have been embedded in the entire process and every aspect of our work to prepare and deliver the Beijing 2022 Games," said Li Sen, Director General of the General Planning Department of Beijing 2022, who highlighted carbon neutrality and environmental protection as the key focus areas of Beijing 2022 sustainability.

Organisers identified measures to avoid and reduce carbon emissions and reach carbon neutrality. This included minimizing construction by reusing five of the Beijing 2008 venues, using renewable energy to power all Games venues, introducing low-carbon technologies, employing low-carbon transport, and creating forestry-based carbon sequestration projects.

All newly constructed venues embraced new construction standards, from water and energy efficiency to building insulation and cooling technologies; and ecological conservation was prioritised during venue construction in the competition zones. Environmental Impact Assessments were carried out, and diverse nature conservation measures were taken to protect the local plant and animal species.

AUDIT STANDARDS ON SUSTAINABILITY

There are several standards and guidelines that organizations can use to conduct sustainability audits. Some of the most widely used include:

Global Reporting Initiative (GRI) Standards: The GRI is a widely recognized sustainability reporting framework that provides guidelines and indicators for organizations to measure and report on their sustainability performance. The GRI Standards provide a comprehensive and consistent approach to sustainability reporting, and are used by organizations around the world to report on their sustainability performance.

ISO 26000: ISO 26000 is an international standard for corporate social responsibility that provides guidelines for organizations on how to implement, maintain, and continually improve their social responsibility practices. This standard can be used as a framework for conducting sustainability audits, and provides guidance on topics such as environmental responsibility, human rights, and community involvement.

Sustainability Assessment Standards: There are a number of sustainability assessment standards that organizations can use to conduct sustainability audits. These standards provide a systematic and comprehensive approach to sustainability assessment, and include the Environmental Management Accounting (EMA) standards, the AA1000 Account Ability Principles Standard, and the Sustainability Assessment Framework (SAF).

National and Regional Standards: There are also a number of national and regional standards that organizations can use to conduct sustainability audits. For example, the European Union has developed the EU Eco-Management and Audit Scheme (EMAS), which provides a framework for organizations to measure and report on their sustainability performance.

IMPORTANCE OF SUSTAINABILITY AUDIT

A sustainability audit will serve two crucial functions:

1) identifying important environmental, social and governance (ESG) risks, and
2) benchmarking the organisation's sustainability initiatives against competitors.

Besides these, a sustainability audit is important for several reasons, including:

1) **Identifying areas for improvement:** A sustainability audit helps organizations to understand their environmental, social, and economic impacts, and identify areas where they can improve their sustainability performance. This can lead to cost savings, increased efficiency, and reduced environmental impacts.
2) **Measuring sustainability performance:** A sustainability audit provides a systematic and comprehensive way to measure an organization's sustainability performance, and to track progress over time. This information can be used to set sustainability goals, benchmark performance against industry standards, and engage stakeholders.
3) **Demonstrating commitment to sustainability:** By conducting a sustainability audit and taking action on its findings, organizations can demonstrate their commitment to sustainability and show that they take their environmental and social responsibilities seriously.
4) **Enhancing reputation and brand image:** A sustainability audit can help organizations to enhance their reputation and brand image by demonstrating their commitment to sustainability and by improving their sustainability performance. This can help to attract and retain customers, employees, and other stakeholders who value sustainability.
5) **Fostering innovation and competitiveness:** By identifying areas for improvement and taking action to improve sustainability performance, organizations can foster innovation and competitiveness. This can help to stay ahead of the curve, to respond to changing market demands, and to differentiate themselves from competitors.
6) Overall, a sustainability audit provides a valuable tool for organizations to understand their sustainability performance, to identify areas for improvement, and to take action to enhance their sustainability and to achieve their sustainability goals.

PART B. ESG RATING

MEANING OF ESG

ESG (environmental, social, and corporate governance) is a framework designed to be embedded into an organization's strategy that considers the needs and ways in which to generate value for all of organizational stakeholders (such as employees, customers and suppliers and financiers).

ESG is a term used to represent an organization's corporate financial interests that focus mainly on sustainable and ethical impacts.

Capital markets use ESG to evaluate organizations and determine future financial performance. While ethical, sustainable and corporate governance are considered non-financial performance indicators, their role is to ensure accountability and systems to manage a corporation's impact, such as its carbon footprint.

ESG corporate reporting can be used by stakeholders to assess the material sustainability-related risks and opportunities relevant to an organization. Investors may also use ESG data beyond assessing material risks to the organization in their evaluation of enterprise value, specifically by designing models based on assumptions that the identification, assessment and management of sustainability-related risks and opportunities in respect to all organizational stakeholders leads to higher long-term risk-adjusted return. Organizational stakeholders include but not limited to customers, suppliers, employees, leadership, and the environment.

What are the criteria for ESG?

Each criterion of ESG plays an important role in the effort to increase focus on sustainable and ethical investments.

1. **Environmental**

   Environmental factors involve how much an organization considers the protection of natural resources. These factors include the environment, climate change, energy consumption and use and its overall impact.

   Examples of environmental factors include:

   - Air and water quality
   - Biodiversity
   - Deforestation
   - Energy performance
   - Carbon footprint, including greenhouse gas emissions
   - Natural resource depletion
   - Waste management and pollution

2. **Social**

   Social factors address how an organization treats people, Community relations, including the organization's connection and impact on the local communities in which it operates and serves, Examples of social factors include:

   - Customer satisfaction
   - Data protection and privacy policies and efforts
   - Efforts to fund projects or institutions that help poor and underserved communities globally
   - Employee diversity, equity and inclusion (DEI)
   - Employee engagement and relations
   - Health and safety
   - Human rights, including child labor and slavery
   - Labour standards

3. **Governance**

   Governance examines how a corporation polices itself, focusing on internal system controls and practices to maintain compliance. Governance focuses on transparency, industry best practices, organization management and associated growth initiatives.

   Examples of governance factors include:

   - Company leadership
   - Board composition, including diversity and structure

- Corruption and bribery
- Donations and political lobbying
- Executive compensation and policies
- Tax strategy, including audit committee structure, internal controls and regulatory policies
- Whistleblower programs.

MEANING OF ESG RATING

An ESG score is an objective measurement or evaluation of a given company, fund, or security's performance with respect to Environmental, Social, and Governance (ESG) issues. Specific evaluation criteria vary between the different rating platforms that issue ESG scores; however, they all fall within one (or more) of the E, S, or G.

ESG scoring systems tend to be either industry-specific or industry-agnostic. Industry-specific scoring systems assess issues that have been deemed material to the industry at large. Industry-agnostic ESG scores tend to incorporate widely accepted factors that are meaningful across industries – issues like climate change, diversity, equity and inclusion (DEI), and human rights.

ESG rating platforms determine a weighting for each measurement criterion; then, they assess an organization's performance against each criterion. An organization's final ESG score is typically a sum-product of the criteria ratings and the (proprietary) criteria weightings.

An ESG rating measures a company's exposure to long-term environmental, social, and governance risks. These risks, involving issues such as energy efficiency, worker safety, and board independence, have financial implications. But they are often not highlighted during traditional financial reviews. Investors who use ESG ratings to supplement financial analysis can gain a broader view of a company's long-term potential.

A good ESG rating means a company is managing its environment, social, and governance risks well relative to its peers. A poor ESG rating is the opposite -- the company has relatively higher unmanaged exposure to ESG risks.

Along with ESG reporting, ESG ratings help investors understand a company's priorities and the long-term risks it could face in the future.

Key Takeaways

- An ESG score is an evaluation of an organization's performance against various sustainability metrics (related to either environmental, social, or governance issues).
- ESG scores are generated by rating platforms where analysts evaluate corporate disclosures, conduct management interviews, and review publicly available information about an organization to provide an objective rating of the organization's performance.
- Scores are used differently by different stakeholders (i.e., investors vs. employees), and rating platforms have evolved to reflect this variety of use cases.

ESG KEY PERFORMANCE INDICATORS

ESG key performance indicators, or KPIs, are trackable figures meant to help firms understand the environmental, social and governance impact of their operations. For venture capital and private equity managers, ESG KPIs are integral in understanding the ESG impact of the companies they invest in or are thinking about investing in, and thus the impact of their funds. ESG KPIs also provide managers and investors with an idea of what risks their investments and funds face.

With reference to the Key Performance Indicators (KPIs) of ESG, it will be of paramount academic interest to explore Regulation 34(2)(f) of the SEBI (LODR) Regulations, 2015 as amended by SEBI (LODR) (Second Amendment) Regulations, 2023 dated 14th June 2023 reads as under:

"for *the top one thousand listed entities based on market capitalization, the annual report shall contain a Business Responsibility and Sustainability Report on the environmental, social and governance disclosures, in the format as may be specified by the Board from time to time.*

Provided that the ***assessment or assurance of the specified parameters as per the Business Responsibility and Sustainability Report Core*** *shall be obtained, with effect from and in the manner as may be specified by the Board from time to time."*

Explanation:

1. *Business Responsibility and Sustainability Report Core shall comprise of such key performance indicators as may be specified by the Board from time to time;*

2. *"Value chain" for the listed entities shall be specified by the Board from time to time.*

On referring the Consultation Paper on ESG Disclosures Ratings and Investing by SEBI it is mentioned that Assurance can be either limited or reasonable. Limited Assurance is being adopted globally by jurisdictions as it is relatively easy to implement. However, due to its inherent nature, limited assurance draws relatively low confidence, while reasonable assurance despite being relatively more expensive, draws more confidence.

In order to achieve the twin objectives of improving credibility and limiting the cost of compliance, BRSR Core has been proposed by SEBI for reasonable assurance which consists of select Key Performance Indicators (KPIs) under each E, S and G attributes / areas that needs to be reasonably assured.

SEBI in this regard issued a consultation paper on ESG Disclosures, Ratings and Investing in the month of February 2023 introducing the concept of BRSR Core for third party assurance on select Key Performance Indicators (KPIs) under E, S and G areas. ESG Advisory Committee (EAC) of SEBI adopted the following approach in developing BRSR Core:

1. The KPIs sought in BRSR are quantifiable to the extent possible so as to facilitate comparability of the disclosures.

2. It contains factors that are relevant to both Manufacturing and service sectors and are relevant in the Indian Context.

3. The KPIs contain a number of intensity ratios so as to enable comparability irrespective of size of the Company.

The consultation paper recommended a glide path approach in implementation of assurance mandates on BRSR Core as under:

For FY 22-23 – BRSR Mandatory Reporting for top 1000 companies and Assurance–No mandatory Requirement

For FY 23-24-Reasonable Assurance of BRSR Core –Mandatory for top 250 companies

For FY 24-25 - Reasonable Assurance on BRSR Core mandatory for top 500 companies

For FY 25-26- Reasonable Assurance on BRSR Core mandatory for top 1000 companies

Further, at present the metrics related to supply chain of a company are covered under leadership indicators in the BRSR, that may be reported on voluntary basis. It was proposed in the consultation paper to introduce a limited set of ESG disclosures i.e. BRSR Core in a gradual manner and on comply or explain basis as under.

For FY 24-25 – ESG disclosures as per BRSR Core, for supply chain for top 250 companies on comply or explain basis; Assurance not mandatory.

For FY 25-26 - ESG disclosures as per BRSR Core, for supply chain for top 250 companies on comply or explain basis; Assurance on comply or explain basis.

List of Recommended Attributes in the consultation paper

Sr. No.	*Attribute*
1	Change in GHG footprint
2	Change in Water footprint
3	Investing in reducing its environmental footprint
4	Embracing circularity - details related to waste management by the entity
5	Enhancing Employee Wellbeing and Safety
6	Enabling Gender Diversity in Business
7	Enabling Inclusive Development
8	Fairness in Engaging with Customers and Suppliers
9	Openness of business

It is heartening to note that globally corporate have realized the importance of assurance on ESG Parameters. The KPMG Survey of Sustainability Reporting 2022 found that 63 percent of the G250 companies obtained assurance. Similarly, the International Federation of Accountants' (IFAC) recent study of around 1,350 companies in 15 jurisdictions found that 64 percent were obtaining some form of assurance over at least some of their ESG information. In view of this, it is essential to have a look on the International Regulatory framework on Independent Assurance of ESG/Sustainability Reports.

Environmental, Social and Governance Reporting Guide, Hong Kong	The issuer may seek independent assurance to strengthen the credibility of the ESG information disclosed. Where independent assurance is obtained, the issuer should describe the level, scope and processes adopted for the assurance given clearly in the ESG report. *Reference: https://en-rules.hkex.com.hk/rulebook/environmental-social-and-governance-reporting-guide-0*
Corporate Sustainability Reporting Directive, EU	CSRD requires independent assurance service providers to carry out the assurance of sustainability reporting, Member States should also allow a statutory auditor, other than the one(s) carrying out the statutory audit of the financial statements, to express an assurance opinion on sustainability reporting. Member States should set out requirements that ensure the quality of the assurance of sustainability reporting carried out by independent assurance services providers and consistent outcomes in the assurance of sustainability reporting. Therefore, all independent assurance services providers should be subject to requirements that are equivalent to the requirements set out in Directive 2006/43/EC of the European Parliament and of the Council as regards the assurance of sustainability reporting, while being adapted to the characteristics of independent assurance services providers which do not carry out statutory audits.

	If an undertaking seeks the opinion of an accredited independent assurance services provider other than the statutory auditor on its sustainability reporting, it should not in addition need to request an assurance opinion on its sustainability reporting from the statutory auditor. *Reference: https://eur-lex.europa.eu/legal content/EN/TXT/?uri=CELEX:32022L2464*
NASDAQ ESG Reporting Guide	In May 2019, NASDAQ launched its new global environmental, social and governance (ESG) reporting guide for public and private companies. Initially introduced in 2017 as a voluntary support program for Nasdaq's Nordic and Baltic markets, the new Guide includes the latest third-party reporting methodologies widely adopted by the industry and aims to help both private and public companies navigate the evolving standards on ESG data disclosure. The Guide provides sustainability disclosures by external assurance by a third party. *Reference: https://www.nasdaq.com/docs/2019/11/26/2019-ESG-Reporting-Guide.pdf*
JSE Climate Disclosure Guidance	Reports are generally more credible when they are supported by robust internal assessment processes involving existing internal audit, risk, and data control verification systems. Properly managed, external assurance provides a hugely valuable independent oversight and advisory function on an organisation's internal data gathering, management and disclosure activities, and it can contribute to an added degree of trust, credibility, and recognition among external stakeholders. It is important to recognise, however, that while third-party assurance is usually valuable in strengthening internal sustainability reporting systems and enhancing the credibility of reports, organisations should not use any concerns regarding the (perceived or actual) cost of assurance as a reason not to report; it is better to start reporting with no or little assurance, than to not start reporting at all. *Reference:https://www.jse.co.za/sites/default/files/media/documents//JSE%20Climate%20 Disclosure%20Guidance_June%202022*.pdf
European Sustainability Reporting Standards (ESRS)	These standards will require detailed corporate reporting on a broad range of ESG issues, as well as audited assurance on the information disclosed.

At this juncture, it will be of substantial academic interest peruse the ESG Metrics prescribed by SGX (The Singapore Exchange), which is an exemplar in ESG initiative. The Singapore Exchange (SGX) recommends a list of 27 core ESG metrics ("Core ESG Metrics") for Issuers to use as a starting point for sustainability reporting. These Core ESG Metrics are intended as a common and standardised set of ESG metrics, which will help better align users and reporters of ESG information. The 27 core ESG metrics identified by SGX are as under:

List of SGX's Core ESG Metrics

1. Environmental

Topic	***Metric***	***Unit***	***Framework Alignment***	***Description***
Greenhouse Gas Emissions ("GHG")	Absolute emissions by: (a) Total; (b) Scope 1, Scope 2; and (c) Scope 3, if appropriate	tCO2e	GRI 305-1, GRI 305-2, GRI 305-3, TCFD, SASB 110, WEF core metrics	Metric tons of carbon dioxide equivalent (tCO2e) of relevant GHG emissions. Report the Total, Scope 1, and Scope 2 GHG emissions and, if appropriate, Scope 3 GHG emissions. GHG emissions should be calculated in line with internationally recognised methodologies (e.g., GHG Protocol).
	Emission intensities by: (a) Total; (b) Scope 1, Scope 2; and (c) Scope 3, if appropriate	tCO2e/ organisation - specific metrics	GRI 305-4, TCFD, SASB 110	Emission intensity ratios in GHG emissions (tCO2e) per unit of organisation- specific metrics (e.g., revenue, units of production, floor space, number of employees, number of passengers). This is calculated from the absolute emissions reported. Denominators should be clearly defined and disclosed.
Energy Consumption	Total energy consumption	MWhs or GJ	GRI 302-1, TCFD, SASB 130	The organization has total energy consumption in megawatt hours or gigajoules (MWhs or GJ).
	Energy intensity consumption	MWhs or GJ organisation-specific metric	GRI 302-3, TCFD	Energy intensity ratios in energy consumed (MWhs or GJ) per unit of organisation- specific metrics (e.g., revenue, units of production, floor space, number of employees, number of passengers). This is calculated from the total energy consumption reported. Denominators should be clearly defined and disclosed.

Topic	*Metric*	*Unit*	*Framework Alignment*	*Description*
Water Consumption	Total water consumption	ML or m^3	GRI 303-5, SASB 140, TCFD, WEF core metrics	All operations have total water consumption in metres or cubic metres (ML or m^3).
	Water consumption intensity	ML or m^3/ organisation-specific metrics	TCFD, SASB IF-RE- 140a.1	Water intensity ratios in water consumed (ML or m^3) per unit of organisation-specific metrics (e.g., revenue, production units, floor space, number of employees, number of passengers). This is calculated from the total water consumption reported. Denominators should be clearly defined and disclosed.
Waste Generation	Total waste generated	Tonne (t)	GRI 306-3, SASB 150, TCFD, WEF expanded metrics	Total weight of waste generated, in metric tons (t), within the organisation, and where possible, to include relevant waste composition information (*e.g., hazardous vs. non-hazardous, recycled vs. non-recycled*).

2. Social

Topic	*Metric*	*Unit*	*Framework Alignment*	*Description*
Gender Diversity	Current employees by gender	Percentage (%)	GRI 405-1, SASB 330, WEF core metrics	Percentage of existing employees by gender.
	New hires and turnover by gender	Percentage (%)	GRI 401-1, WEF core metrics	Percentage of new employee hires and employee turnover during the reporting period by gender.

Topic	***Metric***	***Unit***	***Framework Alignment***	***Description***
Age-Based Diversity	Current employees by age groups	Percentage (%)	GRI 405-1, WEF core metrics	Percentage of existing employees by age group. GRI's employee age group categories include: (a) under 30 years old, (b) 30-50 years old, and (c) over 50 years old.
	New hires and turnover by age groups	Percentage (%)	GRI 401-1, WEF core metrics	Percentage of new employee hires and employee turnover during the reporting period by age group. GRI's employee age group categories include: (a) under 30 years old, (b) 30-50 years old, and (c) over 50 years old.
Employment	Total turnover	Number and Percentage (%)	GRI 401-1, SASB 310, WEF core metrics	Total number and rate of employee turnover during the reporting period. The scope of reporting (i.e., subsidiaries included or not) should be clearly defined and disclosed.
	Total number of employees	Number	Commonly reported metric by SGX Issuers	The total number of employees at the end of the reporting per the scope of reporting (i.e., subsidiaries included or not) should be clearly defined and disclosed.

Topic	*Metric*	*Unit*	*Framework Alignment*	*Description*
Development & Training	Average training hours per employee	Hours/No. of employees	GRI 404-1, WEF core metrics	Average training hours per employee during the reporting period (total number of hours of training provided to employees over the total number of employees).
	Average training hours peremployee by gender	Hours/No. of employees	GRI 404-1, WEF core metrics	Average training hours per employee during the reporting period by gender (total number of hours of training provided to employees in each category over a number of employees per category).
Occupational Health & Safety	Fatalities	Number of cases	GRI 403-9, WEF core metrics, MOM (Singapore), SASB 320	Number of fatalities due to work-related injury during reporting period across the organisation. The report's scope should include employees and workers who are not employees but whose work and/or workplace is controlled by the organisation.

3. Governance

Topic	*Metric*	*Unit*	*Source*	*Description*
Board Composition	Board independence	Percentage (%)	GRI 102-22, WEF core metrics	The number of independent board directors as a percentage of all directors.
	Women on the board	Percentage (%)	GRI 102-22, GRI 405-1, WEF core metrics	The number of female board directors as a percentage of all directors.

Topic	Metric	Unit	Source	Description
Management Diversity	Women in the management team	Percentage (%)	GRI 102-22, GRI 405-1, WEF core metrics, SASB 330	The number of female senior management as a percentage of senior management. Each organisation defines which employees are part of its senior management team.
Ethical Behaviour	Anti-corruption disclosures	Discussion and number of standards	GRI 205-1, GRI 205-2 and GRI 205-3	Disclosures based on GRI's anti-corruption standards of 205-1, 205-2 and 205-3.
	Anti-corruption training for employees	Number and Percentage (%)	GRI 205-2, WEF core metrics	Number and percentage of employees that received anti- corruption training during the reporting period.
Certifications	List of relevant certifications	List	Commonly reported metric by SGX Issuers	List all sustainability or ESG-related certification (e.g., ISO 45000 family, BCA Green Building, LEED, ENERGY STAR). Each organisation defines which certifications are relevant to be reported.
Alignment with Frameworks	Alignment with Frameworks and disclosure practices	GRI/TCFD/SASB/ SDGs/others	SGX-ST Listing Rules (Mainboard) 711A and 711B, Practice Note 7.6; SGX-ST Listing Rules (Catalist) 711A and 711B, Practice Note 7F	The Issuer needs to give priority to using globally-recognised frameworks and disclosure practices to guide its sustainability reporting. Where the Issuer is applying a portion of a particular framework, the Issuer should provide a general description of the extent of the Issuer's application of the framework.
Assurance	Assurance of Sustainability Report	Internal/External/ Non e	SGX-ST Listing Rules (Mainboard) 711A and 711B, Practice Note 7.6; SGX-ST Listing Rules (Catalist) 711A and 711B, Practice Note 7F	Disclose whether the Sustainability Report has undertaken: (a) external independent assurance, (b) internal assurance or (c) no assurance. Provide scope of assurance if the organisation has undertaken external or internal assurance.

The KPIs of ESG are provided in the following tables.

ENVIRONMENTAL	***SOCIAL***	***GOVERNANCE***
Environmental Policy	Monetary and Non Monetary employee benefits	Board independence
Environmental impacts	Attrition rate	Board Diversity
Energy Consumption	Training and Development Hours	Separation of powers
Energy intensity	Health care Benefits	Voting pattern and results
Carbon Emission	Human Rights Policy and Violations	Gender Pay Ratio
Primary Energy Source	Child and Forced labour	Business Ethics and Code of Conduct
Renewable Energy usage	Gender Parity	Supplier Code of Conduct
Water Management	Local Procurement	Corporate Governance
Waste Management	Community and Social Work	AML / Anti Bribery Policy

CATEGORY: ENVIRONMENT	
Environmental Policy	Does the Company have an Environmental policy and if yes to what extent is it followed?
Environmental impacts	Does the Company have any legal or regulatory responsibility for environmental impact?
Energy Consumption	Total energy usage
Energy intensity	Amount of energy used
Carbon Emission	Quantum of Carbon and Green House Gas emissions
Primary Energy Source	What is the primary source of energy used by the Company?
Renewable Energy usage	Percentage of energy used from renewable sources
Water Management	Amount of water consumption and details about water recycling
Waste Management	Amount of waste generated, recycled and reclaimed

CATEGORY: SOCIAL	
Monetary and Non Monetary employee benefits	Employee wages, benefits and staff welfare
Attrition rate	Employee turnover rate
Training and Development Hours	Training and development hours per employee

Health care Benefits	Provision of health care benefits and policy on health care benefits, if any
Human Rights Policy and Violations	Number of grievances about human rights filed, addressed and resolved
Child and Forced labour	Does the Company prohibit use of child/forced labour through the organisation and supply chain?
Gender Parity	Opportunities for gender equality and percentage of women in workforce
Local Procurement	Percentage of total procurement from local suppliers
Community and Social Work	Number of hours spent on community work

CATEGORY: GOVERNANCE	
Board independence	Number of independent directors on Board
Board Diversity	Ratio of women directors on Board
Separation of powers	Whether CEO can chair board / be appointed on Board?
Voting pattern and results	Disclosure of result of voting of last 3 general meetings
Gender Pay Ratio	Ratio of median male salary to medial female salary
Business Ethics and Code of Conduct	Does the Company have and follow a Business Ethics and Code of Conduct?
Supplier Code of Conduct	Does the Company have and follow a Supplier Code of Conduct?
Corporate Governance	Adherence to corporate governance practices
AML / Anti Bribery Policy	Does the Company have and follow an AML / Anti Bribery Policy?

ESG RATING ORGANISATION/ ESG RATING PROVIDERS AND ESG METHODOLOGY

The ESG Rating Agencies are organizations that examine a company's environmental, social, and corporate governance policies to determine its sustainability. Stakeholders may use an ESG rating agency's report to see how sustainable a company is, allowing them to better determine which ones to invest in and where to do business.

With ESG investing becoming mainstream, the demand for ESG data and indices has also increased globally. Investors are increasingly relying on ESG ratings to gauge a company's performance on ESG issues and exposure to ESG related risks. ESG ratings help to bridge this gap by collecting the myriad ESG data, analyzing and diluting it to a single score/rating. ESG rating providers ("ERPs") collect ESG data for a given company mainly from a company's own disclosures, news items, third party reports and questionnaires. ERPs thereafter employ their distinct methodology to aggregate and process this data into a single score/rating.

Some of the widely known ESG Rating organisations include –

Dun & Bradstreet

Dun & Bradstreet is an international business data and analytics provider, which provides insights into company performance, trends, and ESG factors. Through its ESG analysis, Dun & Bradstreet provides companies with a comprehensive view of their sustainability performance in relation to global peers.

They offer company-level ESG scores and ratings, sector-level analysis, and a range of other data points to help organizations identify key areas for improvement or risk management. Dun & Bradstreet also offers ESG-focused research reports, tailored to specific industries or countries, as well as proprietary tools to help companies track and analyze their own ESG performance.

Knowing the environmental, social, and governance risks of doing business with third parties is a key factor in maintaining a competitive advantage in any economic climate. That's why they provide you with an easy-to-understand snapshot of these rankings, including a comparison to industry averages, so you can make informed decisions about investing.

Sustainalytics ESG Risk Ratings

Sustainalytics is an ESG rating and data supplier that provides ESG ratings on 20,000 companies and 172 countries. They rate 40,000 companies worldwide. Sustainalytics is a subsidiary of Morningstar, one of the largest stock market data providers in the world. The ESG ratings from Sustainalytics measure the environmental, social, and corporate governance performance of companies on a global scale. They cover about 13,000 international equities across all regions worldwide.

ESG describes the Environmental (E), Social (S), and Governance (G) metrics that are evaluated to inform security selection.

ESG ratings are based on both quantitative ESG data and qualitative analysis. ESG Scores cover several different areas including governance, environmental impact, social contribution, and financial performance to provide a holistic view of the ESG profile of companies.

MSCI ESG Ratings

MSCI ESG Ratings are created by MSCI ESG Research, one of the largest rating agencies. These ESG ratings are released for 14,000 different equity and fixed-income issuers.

SCI ESG Ratings are generally known to be one of the industry leaders in publishing scores and ratings for ESG companies.

MSCI rates companies according to their exposure to industry specific ESG risks and opportunities and their ability to manage those risks and opportunities relative to peers.

The company level ratings are aggregated to the fund level, which are further aggregated to the portfolio level to provide the ESG rating available on the Sustainability tab of the 360 Evaluator.

The MSCI ESG Ratings model seeks to answer four key questions about companies:

- What are the most significant ESG risks and opportunities facing a company and its industry?
- How exposed is the company to those key risks and/or opportunities?
- How well is the company managing key risks and opportunities?
- What is the overall assessment of how the company is managing ESG risks and opportunities and how does it compare to its global industry peers?

The key issue scores and weights are combined and normalized per industry to offer an overall ESG score (0-10) and rating (AAA-CCC) for each issuer.

The criteria covered by MSCI under three pillars- Environmental, Social and Governance is as under:

Pillar	*MSCI*
Environmental	Climate Change
	Natural resources
	Pollution & waste
	Environmental opportunities
Social	Human capital
	Product liability
	Stakeholder opposition
	Social opportunities
Governance	Corporate governance
	Corporate behaviour

Source: Refinitiv, MSCI, Bloomberg, FTSE; OECD assessment.

Bloomberg ESG Disclosures Scores

Bloomberg ESG Disclosure Scores is an ESG data system that provides ESG information for over 11,800 companies in more than 100 countries. Their ESG data includes topics such as climate change, human capital, and shareholders' rights. The ESG Disclosure Scores rank companies on their level of ESG disclosure and span key sustainability topics.

The following criteria covered under Environmental, Social and Governance

Pillar	*Bloomberg*
Environmental	Carbon Emissions
	Climate change effects
	Pollution
	Waste disposal
	Renewable energy
	Resource depletion
Social	Supply chain
	Discrimination
	Political contributions
	Diversity
	Human rights
	Community relations

Governance	Cumulative voting
	Executive compensation
	Shareholders' rights
	Takeover defence
	Staggered boards
	Independent directors

Source: Refinitiv, MSCI, Bloomberg, FTSE; OECD assessment.

Thomson Reuters

Thomson Reuters uses more than 400 different ESG metrics, of which a subset of 186 fields are selected, with history going back to 2002. The ESG metrics are then grouped into ten categories (Resource use, Emissions, Innovation, workforce, human rights, community, product responsibility, management, shareholders and CSR strategy) which are combined to formulate the three pillar scores of Environmental, Social and Governance.

The ESG criteria covered by Thomson Reuters is presented below-

Pillar	*Thomson Reuters*
Environmental	Resource Use
	Emissions
	Innovation
Social	Workforce
	Human Rights
	Community
	Product Responsibility
Governance	Management
	Shareholders
	CSR strategy

Source: Refinitiv, MSCI, Bloomberg, FTSE; OECD assessment.

FTSE Russell's ESG Ratings

The ESG Ratings by FTSE Russel are an ESG-based assessment system of a company's ESG performance. The ESG Ratings consist of more than 7,200 securities from 47 countries and are based on a methodical analysis of the performance at a company level.

The ratings are a way to compare and analyze the ESG performance of issuers. The ratings consist of six ESG categories which are listed below:

- Corporate Governance
- Environmental Policy

- Social Policy
- Labor Practices
- Supply Chain Policy
- Country of Origin (a proxy for economic development)

Institutional Shareholder Services Ratings and Rankings

ISS (Institutional Shareholder Services), majority-owned by Deutsche Bourse Group, provides company, country, and fund ratings as well as data and analysis across the full range of sustainable investment issues, including climate change, human rights, labor standards, corruption, and controversial weapons.

S&P Global ESG Scores

Standard & Poor's Global is one of the largest companies that provide data analytics and reporting related to companies around the world. S&P Global ESG Scores is different from other ESG scoring systems because it uses a bottom-up approach. The system's goal is to take the ESGY Scorecard directly to the industry level, which can control ESG behavior. S&P Global ESG Scores takes a more analytical look at how well companies perform in areas such as environmental practices and employee relations.

CDP Climate, Water, and Forest Scores

A not-for-profit organization called CDP, which provides environmental data, research, and tools to investors, helps investors identify funds that invest in companies that are more successful at addressing material concerns linked to climate change, water security, and deforestation.

Moody's ESG Solutions Group

Moody's ESG Solutions Group, a Moody's Corp. business unit. Moody's is well-known as being one of the largest credit rating agencies in the world. This segment of their business offers ESG ratings, analytics, sustainability ratings, and sustainable finance reviewer/certifier services using data from Moody's. The group now includes environmental social responsibility (ESG) assessor V.E (Vigeo Eiris), as well as climate data business Four Twenty Seven, which was acquired in 2019.

UNDERSTANDING MSCI ESG RATINGS – AN EXAMPLE TO UNDERSTAND ESG RATINGS
(*Source: www.msci.com*)

The foundation of the MSCI ESG score is a key issues framework that measures risk across 10 categories of environment, social, and governance areas.

Considerations for the environmental score

MSCI's key environmental issues fall under the categories of climate change, natural capital, pollution and waste, and environmental opportunities.

Climate change issues include:

- Carbon emissions
- Product carbon footprint
- Financing environmental impact
- Climate change vulnerability

Natural capital issues are:

- Water sourcing
- Biodiversity and land use
- Raw material sourcing

The pollution and waste category encompasses:

- Toxic emissions and waste
- Packaging material and waste
- Electronic waste

Environmental opportunities are:

- Clean technology
- Green building
- Renewable energy

Considerations for the social score

Social score issues fall into four categories: human capital, product liability, stakeholder opposition, and social opportunities.

Human capital issues are:

- How labor is managed
- Health and safety practices and protocols
- Worker training
- Supply chain labor standards

Product liability areas of focus include:

- Product safety and quality
- Chemical safety
- Consumer financial protection
- Privacy and data security
- Responsible investing
- Insuring health and demographic risk

Stakeholder opposition includes:

- Controversial sourcing
- Community relations

Social opportunities are:

- Access to communication
- Access to finance

- Access to healthcare
- Opportunities in nutrition and health

Considerations for the governance score

MSCI breaks governance into two categories: corporate governance and corporate behavior.

Corporate governance includes:

Composition of the board in terms of diversity and independence

- Executive compensation
- Ownership
- Accounting practices

Corporate behavior encompasses:

- Business ethics
- Tax transparency

How are companies scored?

Key issues are identified by industry. MSCI selects 35 most relevant issues to specific industries. For example, packaging material and waste is a key issue for the soft drink industry. This wouldn't be a factor for industries that don't physically package a product, such as technology infrastructure. Corporate governance key issues are included for all industries.

Companies are scored on each key issue. MSCI analyzes 80 different exposure metrics and 270 governance metrics to score companies from 0 to 10 on each key issue. A low score means the company is heavily exposed to the issue and is not managing that risk effectively. A high score indicates an aggressive effort to mitigate the risk. An example of risk mitigation for carbon emissions would be Microsoft's (NASDAQ:MSFT) goal to become carbon-negative by 2030.

Issues are weighted. MSCI weights key issues according to their timeline and potential impact. Issues that could have a major environmental or social impact within two years have the highest weights. Issues with lesser potential for impact and a timeline of more than five years have the lowest weights. Worker safety in a manufacturing environment, for example, presents an immediate risk with severe financial and legal consequences. That would justify a heavier weighting. Issue scores and weights are combined. Issue scores and weights are combined to produce an industry-adjusted numerical score from 0 to 10 for the rated company. MSCI translates the numerical score into an ESG rating. ESG ratings range from CCC to AAA. The leaders have AA and AAA scores.

ESG score data sources

MSCI uses public data sources to measure ESG exposure. These sources include company 10-Ks, sustainability reports, and proxy reports, plus thousands of monitored media outlets and data sets from governments, regulatory organizations, and NGOs. MSCI also works directly with corporations to validate the information collected.

ESG rating reliability

ESG ratings have been making the news recently for a lack of transparency in data sourcing. ESG ratings are a useful tool only if they are data-backed, reliable, and objective. While that remains largely the case, recent events have called that into question.

One major event is the war in Ukraine, where environmental and social values are colliding. Europe is loosening climate objectives and reverting to fossil fuel use to ban Russian oil, leading to increased fossil fuel use across business sectors.

Simultaneously, Russian-backed Sberbank (ETR:SBNC)(AKSJ.F) has sparked outrage as it was highly rated by both MSCI ESG research and Sustainalytics as of December 2021. The bank scored especially well on data security and governance compared to Western lenders.

MSCI and Sustainalytics have now downgraded or suspended Sberbank and other Russian government-backed companies. Investors are calling for an overhaul in how geopolitics and human rights factor into ESG ratings.

Meanwhile, a working paper from the European Corporate Governance Institute found that a significant number of ESG rating agencies were downgrading ESG scores retroactively. The findings call into question the reliability of ESG ratings and may reduce investor confidence.

In better news for ESG integration in mainstream finance, in June 2022 the UK's Financial Conduct Authority (FAC) stated that it has a clear rationale for regulating ESG ratings. ESG rating standardization means greater transparency and standardization for investment decisions.

An ESG rating example

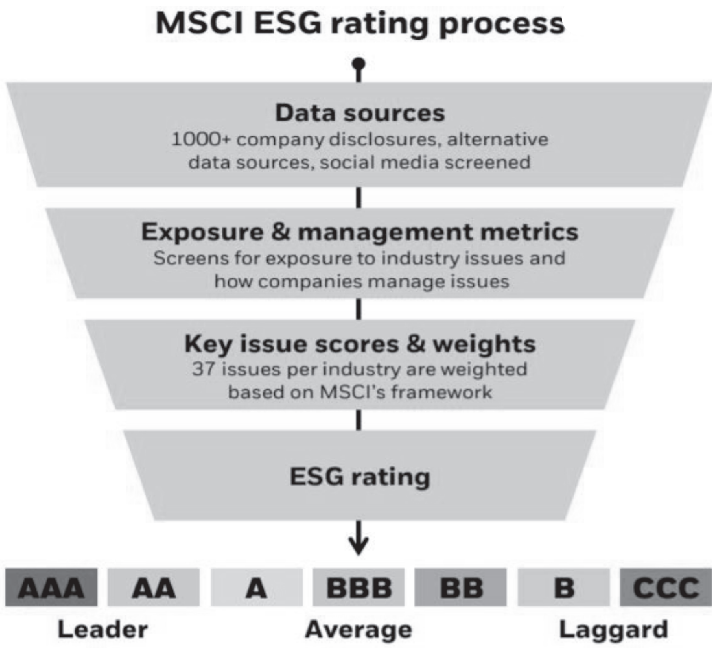
Amazon (NASDAQ:AMZN) has an average MSCI ESG rating of BBB. Amazon leads in corporate governance and privacy and data security. However, the e-commerce retailer has an average product carbon footprint and poor scores for labor management and corporate behavior.

The laggard score in labor management and corporate behavior isn't surprising if you follow Amazon. The company has had its share of negative headlines in these areas. Amazon workers' complaints have been surfacing for years. Reports cite issues such as hazardous working conditions, aggressive attempts to block unionization, and mistreatment of pregnant workers.

Amazon has also been accused of price-fixing more than once. In early 2021, a group of retail booksellers filed a class action lawsuit claiming Amazon and major book publishers were manipulating wholesale prices on print books. Two months later, the District of Columbia filed a separate antitrust suit alleging Amazon prohibited third-party sellers from offering their products at lower prices outside of Amazon's website.

Poor treatment of workers and unsavory trade practices are more than problematic on principle. They pose financially relevant risks such as workforce churn, higher recruitment costs, lawsuits, and loss of reputation.

If you are (or want to be) an Amazon shareholder, the more you know about factors that can affect the retailer's returns, the better decisions you will make.



Source: MSCI

ADVANTAGES OF ESG RATING

Unsurprisingly, people prefer to invest in companies that manage their risks better than their competition. Companies with high ESG scores appear sustainable, boast fewer liabilities, build positive brand reputations, and maintain strong relationships with their clients and stakeholders. As a result, these companies have an advantage when attracting talent, impressing consumers, and raising capital.

There are five main benefits small to mid-sized companies can gain by starting an ESG program:

- Competitive Advantage
- Cost Reduction
- More Attractive to Lenders and Investors
- Supply Chain Prospects
- Attraction and Retention of Talent

Competitive Advantage:

Having an ESG program in place helps boost brand recognition and even promotes brand loyalty. Today's consumers and clients are increasingly aware of ethical spending and care more about what a company does to support sustainability. Small to mid-sized companies that have taken steps to meet sustainability concerns (having an ESG program) have been known to attract more customers and clients who seek to do business with companies addressing these issues.

Small to mid-size companies can create value by having an ESG program. In the past, it was harder to track and be consistent when it came to ESG data and took extra resources. Today ESG data management is simpler with software programs that allow for the ability to consolidate information such as tracking greenhouse gas emissions (GHG), energy data, utility data sync, waste management, etc.

Cost Reduction:

By implementing an ESG program, small to mid-sized companies can track key metrics like energy consumption, water consumption, waste shipping/treatment costs, and raw material usage. This tracking ability is a prerequisite for companies to plan programs to improve efficiency, which leads to reduced costs associated with energy and water usage and waste transport. In addition to improving cost management, ESG programs also allow for operational efficiency, less exposure to fines/penalties, better risk management, and improved innovations.

More Attractive to Lenders and Investors:

Attracting the attention of investors and lenders is one of the biggest advantages of having an ESG program. It seems no matter where you look for ESG benefits, the top thing that comes up is that investors and lenders are gaining interest in companies with an ESG program in place over those without. Study(opens in a new tab) after study(opens in a new tab) has shown companies that made ESG a priority stand out to both investors and lenders because they tend to outperform their competition.

Supply Chain Prospect:

Much like investors are paying more attention to ESG, many companies are looking for supply chain partners that embrace sustainability efforts. For example, many retail stores are making decisions not to stock products made by companies considered to have poor ESG performance. Companies' supply chains have an effect on the environment, people, and society, so companies that take their ESG goals seriously find it to be in their best interest to partner with suppliers who share the same vision. Multiple large companies have already made the move to implementing ESG, making it more beneficial for them to partner with suppliers that have an ESG program in place, as well as easier to attract partners who insist on better ESG performance as a condition for partnership.

Arguably, these considerations carry even more weight for small to mid-sized companies. A larger company can potentially replace lost supply chain partners more easily than smaller competitors can, so those smaller companies need to be especially mindful of the ESG criteria that many companies are looking for in their choice of partnerships.

Attraction and Retention of Talent :

Today, many job seekers are no longer looking for just a paycheck. They want to enjoy their jobs, feel appreciated, and make a positive impact. Working for a company with strong ESG goals appears to be the top factor for employees' job satisfaction, along with evidence that the company "walks the walk" by putting its stated goals into practice. Adding to that, the "Great Resignation" has shown many employers that at least some of their employees have other options, and will use them if their current job doesn't fulfill their needs and values.

Research(opens in a new tab) has shown that satisfied employees work harder, stay longer, and seek to produce better results. Millennials and Gen Z are quickly taking over the workforce and these generations have put a greater emphasis on environmental and social concerns, expecting more from their employers than prior generations.

Small to mid-sized companies need to compete for their share of the talent pool, which means they need to take the values of people in that talent pool seriously. Making and demonstrating progress on ESG will enable them to recruit and retain top-level talent who will only consider working for companies that are doing the right things.

Promote Company's Growth and Improves Financial Performance:

All the above-listed benefits for having an ESG program in place go hand in hand in contributing to the growth and improved financial performance of a company, especially small to mid-size companies. In the past, the correlation between companies with high ESG performance and strong financial performance might only have been achievable for companies having the resources to invest in an ESG program. However, as mentioned above, this is no longer the case because utilization of ESG software can significantly lower the resources required to pursue ESG.

Small to mid-sized companies can now reap the benefits and easily establish ESG goals. It's easy and not too late to join the sustainability movement. Make ESG your strength and transform your company into a sustainable powerhouse through the help of ESG software.

As per the BSE's "GUIDANCE DOCUMENT ON ESG DISCLOSURES", Importance of ESG reporting can be outlined as below:

Raises Corporate Transparency

It broadens organisational disclosure beyond traditional financial metrics and raises corporate transparency on environmental and social metrics. Sustainability reporting allows a balanced and understandable assessment of the company's performance by stakeholders to facilitate corporate accountability, as promulgated by one of the principles under the Code of Corporate Governance.

Strengthens Risk Management

Sustainability reporting allows listed companies to consider emerging risk areas and to identify opportunities presented by risks that are overlooked by other analytical and system driven approaches. A risk management approach that incorporates sustainability provides management with useful data for identifying emerging issues and developing appropriate responses that help protect corporate reputation and improve shareholder value.

Promotes Stakeholder Engagement

Identification of and engagement with stakeholders are fundamental to sustainability reporting and are cited as critical steps by various international sustainability frameworks. Listed companies need to identify their stakeholders to effectively engage those that are interested in and affected by the company's sustainability performance. Given the varied nature and interests of stakeholders such as shareholders, employees, customers, suppliers and communities, stakeholder engagement enables the company to take into account the Information needs of various stakeholders with regards to the disclosure of sustainability related information.

Improves Communications with Stakeholders

By broadening disclosure beyond financial disclosure to include non-financial disclosure of environmental and social interaction and impact, the company provides a framework for measuring non-financial performance. It also gives guidance on the opportunities and threats faced in managing non-financial risks.

Sustainability reports can be used for benchmarking and assessing sustainability performance with regard to existing frameworks, demonstrating how the organisation influences and is influenced by expectations about sustainable development, and facilitating peer comparison over time and enabling communication with stakeholders.

PART C. EMERGING MANDATES FROM GOVERNMENT AND REGULATORS

ESG REPORTING IN INDIA

ESG reporting in India commenced in **2009** with the Ministry of Corporate Affairs (MCA) issuing the Voluntary Guidelines on Corporate Social Responsibility. Ever since the reporting framework has come a long way with the introduction of Business Responsibility Reporting ("BRR"), Corporate Social Responsibility (CSR), National Guidelines on Responsible Business Conduct (NGRBC) and the newly introduced Business Responsibility and Sustainability Report (BRSR).

The Companies Act, 2013 introduced one of the first ESG disclosure requirements for companies. Section 134(m) mandates companies to include a report by their Board of Directors on conservation of energy, along with annual financial statement. This requirement is further detailed under Rule 8(3)(A) of the Companies (Accounts) Rules, 2014, which mandates the board to provide information regarding conservation of energy. Similar requirement existed in the Companies Act, 1956 also.

Further, it is the statutory duty of a director of an Indian company to act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the company, its employees, the shareholders, the community and for the protection of the environment.

In addition to this, companies are mandated to include disclosures on opportunities, threats, risks and concerns as part of their annual reports under Regulation 34(3) of the SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 ("LODR Regulations"). However, such disclosure requirements do not seek details about the metrics and processes adopted by companies to identify such opportunities or risks nor mandate the companies to chart its progress over the course of time.

In recent times, adapting to and mitigating climate change impact, inclusive growth and transitioning to a sustainable economy have emerged as major issues globally. There is an increased focus of investors and other stakeholders seeking businesses to be responsible and sustainable towards the environment and society. Thus, reporting of company's performance on sustainability related factors has become as vital as reporting on financial and operational performance. The Securities and Exchange Board of India ("SEBI") introduced the requirement of ESG reporting back in 2012 and mandated that the top 100 listed companies by market capitalisation file a BRR. This was later extended to the top 500 listed companies by market capitalisation in 2015.

In 2017, SEBI issued a circular on 'Disclosure Requirements for Issuance and Listing of Green Debt Securities', to introduce the regulatory framework for issuance of green debt securities in India and enhance investor confidence. It supplements the SEBI (Issue and Listing of Debt Securities) Regulation, 2008 and envisages a list of disclosures that an issuer must make in its offer document before and after the commencement of a project financed by green debt. These additional disclosure requirements have been prescribed in order to attract the finance reserved for ESG-compliant projects, such as renewable and sustainable energy, clean transportation, sustainable water management, climate change adaption, energy efficiency, sustainable waste management, sustainable land use, and biodiversity conservation.

In addition to this SEBI circular, the Indian Banks' Association (IBA) has also released the National Voluntary Guidelines for Responsible Financing, laying down broad and general principles towards 'integrating ESG risk management into Financial Institution's (FIs) business strategy, decision-making process and operations. For instance, Principle 2 provides that FIs 'should integrate the analysis of environmental, social and governance factors in their investment, lending and risk-management processes across business lines to minimize adverse impact on their own operations and on society. However, these Guidelines do not envisage any framework for credible and transparent issuance of green debt instruments.

On 10 May 2021, SEBI introduced new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report ("BRSR") by amending regulation 34 (2) (f) of SEBI (Listing Obligation and Disclosure Requirements) Regulation, 2015 ("LODR Regulations").

Further, SEBI, on July 11, 2023, issued a Master Circular No. SEBI/HO/CFD/PoD2/CIR/P/2023/120 in order to enable the users to have access to the provisions of the applicable circulars issued till June 30, 2023, at one place, pertaining to the compliance requirements specified in the LODR Regulations. With the issuance of this Master Circular, the aforementioned SEBI circular dated 10th May, 2021 has been rescinded.

Subsequently, SEBI had issued new circulars on provisions relating to the LODR Regulations. In view of the same, theMaster Circular dated July 11, 2023 has been updated to include all relevant circulars that were issuedon/beforeSeptember30, 2024. The instant master circular supersedes the Master Circular for compliance with the provisions of the LODR Regulations by listed entities dated July 11, 2023.

Section IV-B of this Master Circular prescribed the requirements for Business Responsibility and Sustainability Reporting by listed entities. The format of the BRSR is specified in Annexure 16 to this Master Circular and the guidance note is given at Annexure 17 to enable the companies to interpret the scope of disclosures.

The BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National

Guidelines on Responsible Business Conduct' (NGBRCs) and reporting under each principle is divided into essential and leadership indicators. The essential indicators are required to be reported on a mandatory basis while the reporting of leadership indicators is on a voluntary basis. Listed entities should endeavor to report the leadership indictors also. It is mandatory for the top 1,000 listed companies to annually disclose ESG-related information from financial year 2022-23.

ESG REGULATIONS AROUND THE WORLD

As ESG becomes a topic of much discussion and debate, various stakeholders such as investors, employees, customers, governments, and regulatory agencies are all emphasizing the importance of sustainable management. The integration of sustainable practices into corporate strategy is now increasingly considered as a prominent way to meet shareholder expectations and requirements of a company's environmental, social, and governance (ESG) criteria globally.

International standards such as the United Nations Principles of Responsible Investment (UNPRI), Task Force on Climate-Related Financial Disclosures (TCFD), and the Global Reporting Initiative (GRI) have recently advocated different suggestions to improve ESG reporting procedures around the world.

The regulatory landscape is moving in tandem, especially concerning ESG disclosures and transparency obligations, which the ever-expanding pool of sustainable investors rely on to determine how well financial services and products meet their predefined ESG investment criteria. According to a study conducted in Australia, reporting regulations distinctly influence the intentions of ESG disclosures of companies in the metal and mining sector. However, these monumental changes to the regulatory landscape are more than just a compliance requirement. They are also an opportunity for businesses to make a fundamental choice by approaching the emerging ESG disclosure regulations to comply or recognize this as a long-term change in their business strategy.

Here are some examples of ESG regulations that are mandatory and currently being implemented. The list is not exhaustive, and more regulations and disclosure requirements are expected in the coming years. (*Source: www.regask.com*)

COUNTRY / REGION	***REGULATION***	***INSTITUTION***	***DESCRIPTION***
United States	US SEC Climate Guidance	Securities and Exchange Commission (SEC)	The guidance requires public companies to disclose material business risks to investors, transparently through regular filings with the SEC, including climate change risks that may develop on their business.
United States	NYSE Section 303A Corporate Governance Rules	NYSE	The regulation requires listed companies to "adopt and disclose a code of business conduct and ethics."
United States	Interpretive Bulletin 2015-01	Department of Labor	The regulation clarifies that ESG factors can be a part of the primary analysis of cautious investment decision making.

COUNTRY / REGION	REGULATION	INSTITUTION	DESCRIPTION
Canada	Consultation Report	Ontario Capital Markets Modernization Taskforce	The Consultation contains policy proposals to modernize Ontario's capital markets for enhancing ESG disclosure including forward-looking information, for Toronto Stock Exchange (TSX) issuers.
Canada	TSX Listing Rules	Toronto Stock Exchange	The regulation states that any "material" information on the environment or social aspects must be immediately disclosed by a news release as required by the Exchanges' Timely Disclosure Policies. The issuer must file a material change report on the System for Electronic Document Analysis and Retrieval (SEDAR).
Canada	National Instrument 43-101	Canadian Securities Administration	Under this regulation mining companies are required to report on reasonably available information on environmental and social factors as it involves various mining and exploration activities.
European Union	EU Sustainable Finance Disclosure Regulation (SFDR)	European Commission	SFDR is designed to obligate financial market participants (FMPs) and financial advisers to be transparent with their sustainable investment products and to prevent greenwashing.
European Union	EU Taxonomy Regulation Article 8 Delegated Act	European Commission	The EU Taxonomy framework is designed to categorize economic activities to help fund managers, companies, issuers and project promoters navigate the transition to a low-carbon, climate-resilient, and resource-efficient economy. The taxonomy will increase transparency and facilitate green bonds in sustainable projects and assets across the EU.

COUNTRY / REGION	REGULATION	INSTITUTION	DESCRIPTION
European Union	Sustainable Corporate Governance Initiative	European Commission	The initiative was established to improve the EU regulatory framework on company law and governance by helping companies manage long-term sustainability goals such as social and human rights, climate change, environmental protection, etc. by introducing a duty of care and mandatory due diligence.
European Union	EU Non-Financial Reporting Directive	European Commission	It requires public companies with more than 500 employees to provide accurate data on social and environmental practices they have adopted to aid shareholders.
Germany	German Supply Chain Due Diligence Legislation	German Government	The act will go into effect on January 1, 2023, requiring the applicable companies to determine and assess risks to human rights and the environment within their supply chains, as well as to establish effective risk management systems. The act is applicable to German-based companies having more than 3,000 employees, and the threshold will be reduced to 1,000 starting January 1, 2024.
Netherlands	National Climate Agreement (Klimaatakkoord)	Dutch Government	The National Climate Agreement contains agreements with specific sectors to achieve climate goals. The listed sectors are: electricity, industry, built environment, traffic and transport, and agriculture.
United Kingdom	FCA's Climate-related Disclosure Regime	Financial Conduct Authority	The regulation requires commercial companies with a premium listing to disclose in line with the TCFD recommendations.

COUNTRY / REGION	REGULATION	INSTITUTION	DESCRIPTION
United Kingdom	Mandatory Climate-related Financial Disclosures by Publicly Quoted Companies, Large Private Companies and LLPs (Non-binding guidance)	Department for Business, Energy and Industrial Strategy	The guidance helps companies and limited liability partnerships (LLPs) understand how to meet new mandatory climate-related financial disclosure requirements.
Switzerland	Articles 964a-964c of the Code of Obligations	Federal Audit Oversight Authority	Swiss companies of public interest must prepare an annual report on non-financial matters covering environmental issues, social issues, employee-related issues, human rights, and combating corruption.
Switzerland	Article 964j-964l of the Code of Obligations	Federal Audit Oversight Authority	Registered companies in Switzerland must comply with obligations of due diligence in the supply chain and report if: 1. they place in free circulation or process in Switzerland minerals containing tin, tantalum, tungsten or gold or metals from conflict-affected and high-risk areas; or 2. they supply products or services that are produced by child labor.
Singapore	Environmental Risk Management for Asset Managers, Banks and Insurers	Monetary Authority of Singapore	The guidance lays out expectations for asset managers, banks, and insurers to improve the resilience of funds and segregated mandates they manage by laying out effective environmental risk management procedures that can be implemented.
Hong Kong	ESG Reporting Guide	Hong Kong Securities Exchange	Proposed in 2015, the regulation went through changes in 2020 for introducing ESG mandatory requirements for corporations. There is a requirement to report on the environmental and social factors.

COUNTRY / REGION	REGULATION	INSTITUTION	DESCRIPTION
Hong Kong	Circular to Management Companies of SFC-authorized Unit Trusts and Mutual Funds – ESG Funds	Securities and Futures Commission of Hong Kong	By enhancing the disclosure standard of ESG funds, the circular aims to improve their comparability, transparency and visibility.
Brazil	Instrução Normativa 480/2009	Brazilian Securities Commission (CVM)	Items 7 and 10 of Annex 24 require listed corporations to include the following environmental sustainability information in their yearly reports: environmental policies, costs for compliance with environmental regulations and international standards, and third-party assurance check.
Brazil	DECISÃO DE DIRETORIA Nº 125/2015/V/I, 26 de maio de 2015	Companhia de Tecnologia de Saneamento Ambiental de Brasil (CETESB)	CETESB in São Paulo requires companies in highly polluting industries such as manufacturing and energy to report scope 1 and 2 GHG emissions.
Brazil	Resolution CMN nr 4.661/2018	National Monetary Council	This resolution sets out guidelines for listed entities to "carry out their activities with good faith, loyalty and diligence" and "ensure high ethical standards" in the application of resources. Article 10(4) states these entities "should consider in the analysis of risks, whenever possible, the aspects related to economic, environmental, social and investment governance sustainability".
Japan	Corporate Governance Code Amendments 2018	Japan Exchange Group	The code outlines core principles for successful corporate governance with the goal of achieving mid to long-term growth and increasing corporate value.

COUNTRY / REGION	REGULATION	INSTITUTION	DESCRIPTION
China	ESG-related Amendments to the Disclosure Rules Applicable to Listed Companies	China Securities Regulatory Commission	The act mandates that companies, corporations and investors report on disclosure principles, content, and scopes, as well as liabilities, emphasizing the necessity of transparency for both companies and investors.
China	Measures for the Assessment of Information Disclosure of Listed Companies on the Shenzhen Stock Exchange (2020 revision)	Shenzhen Stock Exchange	These metrics analyze whether listed firms have taken the initiative to disclose their ESG performance, as well as if the substance of their disclosure reports is comprehensive and complete enough to assess their social responsibility.
Australia	Workplace Gender Equality Act	Australian Government, Workplace Gender Equality Agency	This act requires non-public sector companies with more than 100 employees to submit a report to the Workplace Gender Equality agency annually, detailing the gender composition of their workforce, the gender composition of their governing bodies, gender remuneration, and anything else related to gender-based harassment and discrimination.
Australia	ASX Corporate Governance Principles and Recommendations: 4th edition	ASX Corporate Governance Council	By focusing on material environmental and social risks, the fourth edition of the law pushes listed firms to strengthen climate and non-financial risk disclosure.
Australia	National Greenhouse and Energy Reporting Regulation (NGER)	Australian Government, Department of the Environment and Energy	NGER was developed as a framework for energy and emissions reporting. The Determination 2008 provides methods for calculating GHG emissions and energy data provided by the NGER act. Amendments to this act are made annually.

COUNTRY / REGION	REGULATION	INSTITUTION	DESCRIPTION
Australia	The Corporations Act 2001	Australia Securities and Investments Commission	Companies filing director's reports must disclose social and environmental information, as well as ethical information, under this Act. It also applies to superannuation funds, which must explain how environmental, social, and governance factors are factored into investment decisions.

Source: United Nations Principles for Responsible Investment (UNPRI)

ESG – THE WAY AHEAD

As investment in sustainable asset funds continues to rise, organizations face an array of new regulations in the United States, Europe, the Middle East, and Africa. The new regulations will ensure the companies comprising these funds meet true environmental, social, and corporate governance (ESG) criteria versus some version of greenwashing.

By early 2022, ESG investment assets reached $8.4 trillion and accounted for 13% of the total amount of U.S. assets being managed professionally. This massive influx of capital flowing into companies that tout their ESG qualifications has gotten the attention of regulators across the globe. The attention is well-warranted as a company's position on sustainability, and efforts to curb its carbon emissions (or lack thereof), can influence stakeholder decisions.

For example, the U.S. Securities and Exchange Commission has proposed new reporting requirements that will require transparency. Under the new requirements, companies must measure and publish their Scope 1 and Scope 2 carbon emissions beginning in 2024. And for larger companies, required reporting on Scope 3 emissions (or carbon emissions from customers and the supply chain) may not be far behind.

Europe is also stepping up its regulation of sustainability and ESG-related assets. The Corporate Sustainability Reporting Directive, which is part of the European Green Deal, includes the requirement to report sustainability information under the framework of the European Sustainability Reporting Standards. It's estimated the new mandate will impact more than 50,000 large and listed companies based in Europe, as well as companies based outside of the region, but have subsidiaries or branch offices there.

As companies prepare for an influx of new ESG reporting mandates and regulations in 2023, there are three key changes companies should quickly establish to prepare for the challenges ahead.

1. **Appoint a Chief Sustainability Executive**

   The initial impact of these regulatory changes will result in companies making more of a cross-functional effort to understand what needs to happen internally to meet the moment. This will require businesses to build out teams with sustainability roles, from coordinators to C-level executives.

   Chief sustainability officers will be critical in influencing, communicating, and cutting through organizational complexity to allow their company to deliver on ESG commitments. People generally support the idea of working or living more sustainably until it involves them having to change their behaviors. And this is true in the corporate world as well.

   Many employees will be slow to adapt to new policies or focus on the difficulties involved with changing operational processes to be a more sustainable business, including how it deals with the IT asset end-of-life phase, which requires it to move from a destruction mindset to a reuse/recycle process.

It's up to the chief sustainability officer to cut through those obstacles while also continually making an effort to push for change. Once employees are informed and supportive of the goal, they are much more likely to be cooperative with the steps required to get there. This may take some creativity on the part of the chief sustainability executive, for example, including the company's achievement of its ESG goals as an element of employee bonuses could be a true motivator that links teams together to meet a common goal.

2. **Create an ESG Policy Budget**

New ESG regulations will require organizations to hire people for key roles to implement new policies and to partner with companies that will help them achieve sustainability objectives. The first push-back on change is the lack of budget for making these changes; however, for sustainability policies to be successful, a budget must be set aside, and this will require the CFO's buy-in to make it happen.

Justifying the spending may take some convincing, yet many of the changes could potentially save money. For example, extending the life of IT assets will result in purchasing fewer new computers, hard drives, and laptops each year.

3. **Assess Partners' Sustainability Practices**

There is a clear mandate for carbon footprint reduction in the new regulations. As companies calculate and seek to reduce their carbon footprint, they will also need to assess their supply chain in detail to ensure that their partners operate sustainably. This will range from the suppliers of tangible items such as computer equipment to suppliers of utilities into their office space and even the providers of professional services such as accountancy and insurance. The carbon footprint of all company partners will be impacted by the footprint of those partners and it will be important that these partners are taking steps to reduce their own carbon emissions and sustainability. Those companies who are not looking seriously at this now will be left behind.

Alongside the growing number of companies establishing "net zero" targets for carbon by 2050 (or sooner), governments worldwide are ramping up regulatory rules that will separate the companies engaging in greenwashing from those that are serious about reducing their carbon footprint and doing their part to stem the harmful effects of climate change.

While meeting the new mandates set forth through regulations may take time, effort, and money, the organizations that rise to meet these challenges will do much more than just future-proof their businesses via compliance. These proactive companies, alongside their executives, will exhibit the values that both stakeholders and potential investors and customers appreciate now and into the future.

ESG / SUSTAINABLE PRACTICES - EXAMPLES FROM INDIAN LANDSCAPE

Given below are examples of ESG / Sustainability practices being followed by some of the top corporates in India as reported by them in their sustainability reports:

ASIAN PAINT:

Asian paints has reported its sustainability practices over four major areas being:

- **Product Stewardship** – Eco friendly paints and low-VOC paints that ensure health and environmental benefits while providing higher performance levels, International and self 'Green Certification' for products, efforts to reduce carbon footprints of its products and cycle time reduction across intermediate and finished product streams which translates to lower energy consumption are some of the ways through which company reported to have followed sustainability in its product offerings.

- **Environment – "**The environmental practices at Asian Paints are focused on natural resource conservation, optimisation of energy and emissions and relentless waste reduction."
- **Health and Safety** – *"Asian Paints is committed to ensuring safety and protecting the health of its employees, service providers, visitors, neighbouring communities, customers and assets. We follow industry-accredited best practices on occupational health and safety across all our operations and are continuously investing in technologies and processes."*

Their goal is Improving the safety culture to achieve zero accidents, zero occupational illness, and zero incidents of property damage by focusing on several key elements.

- **Community -** Colour Academy, a vocational training initiative of the Company, imparts skill education and works towards enhancing the productivity of the people in the paint application trade. It offers the best training facilities to both new and experienced paint applicators.

Asian Paints contributed towards the COVID-19 Disaster Relief by providing medical supplies like oxygen cylinders, ventilators, oxygen concentrators etc. We also worked with the local communities to understand the need and supplied COVID-19 relief materials like sanitation kits, ration kits, PPE kits, masks and more. We covered all plants with requirements at the COVID care centres, hospitals and within the communities.

NESTLE:

A snapshot of Nestle's sustainability efforts and their outcome is given below:

About Nestlé

275 000
Employees across all our operations

188
Countries we sell in

94.4
Billion
Group sales in CHF

COMMITMENT	KEY PERFORMANCE INDICATOR	2020	2021	2022
We aim to reduce our greenhouse gas (GHG) emissions by 20% by 2025 and 50% by 2030 from 2018 levels, on the road to net zero by 2050 at the latest	Million tonnes of CO_2e reductions compared with business-as-usual scenario[1]	N/A	-4.0	**-6.4**[2]
We aim to achieve and maintain 100% assessed deforestation-free primary supply chains (for meat, palm oil, pulp and paper, soy and sugar) by 2022 and 2025 for cocoa and coffee	Percentage of our primary supply chains for meat, palm oil, pulp and paper, soy and sugar assessed as deforestation-free (%)	N/A	97.2%	**99.1%**
We aim to source 20% of key ingredients through regenerative agriculture methods by 2025 and 50% by 2030	Percentage of key ingredients sourced through regenerative agriculture methods[3] (%)	N/A	N/A	**6.8%**
We aim to reduce water use in our factories by 6 million m^3 between 2021 and 2023	Water use reduction in factories (million m^3)	-1.69	-2.30	**-2.38**
We aim for 100% of key ingredients volumes to be produced sustainably by 2030[4]	Percentage of key ingredients produced sustainably (%)	N/A	16.3%	**22%**[5]
	Number of servings of affordable nutrition with micronutrient fortification (MNF) (billions)	120.0	128.6[6]	**129.2**
By 2025, we aim to design above 95% of our plastic packaging for recycling and continue to work toward 100% being recyclable or reusable	Percentage of plastic packaging designed for recycling[7] (%)	74.8%	74.9%	**81.9%**
By 2025, we aim to reduce virgin plastics by one third, versus our 2018 baseline	Percentage virgin plastic reduction (versus 2018 baseline) (%)	-4.0%	-8.1%	**-10.5%**
By 2030, our ambition is to help 10 million young people around the world have access to economic opportunities	Millions of young people around the world with access to economic opportunities since 2017	2.45	3.89	**5.62**
We aim to increase the proportion of women in our top 200+ senior executive positions to 30% by 2022	Percentage of women in the top 200+ senior executive positions (%)	25.6%	27.2%	**30.2%**

Nestle's sustainability governance structure is framed as below:

Board of Directors - The board is responsible for the company's strategy and organization, including financial and non-financial reporting. This comprises identifying and enforcing both statutory and internal disclosure rules on ESG matters, particularly where ESG risks may affect the Company's performance.

Executive Board - The Company's Executive Board is responsible for the execution of the Company's sustainability strategy, which includes the handling of the mandatory reporting obligations, with delegation to the ESG and Sustainability Council.

ESG & Sustainability Council - The ESG and Sustainability Council provides strategic leadership and execution support, and drives the implementation of Nestlé's sustainability strategy, including our 2050 Net Zero Roadmap, ensuring focus and alignment.

ESG Strategy & Deployment Unit - Ensures execution, monitors external developments, and defines KPIs in support of Nestlé's sustainability strategy. Coordinates sustainability activities and has the oversight of internal ESG data and external disclosures. It also advises Nestlé's ESG and Sustainability Council.

Sustainability Committee (SC) - The SC reviews the Company's sustainability agenda including the measures which ensure the Company's long term sustainability strategy and its ability to create shared value.

Creating Shared Value (CSV) Council - The CSV Council is an external advisory body that advises senior management on a range of sustainability issues.

HDFC BANK

In its Environmental Social & Governance (ESG) Policy Framework, HDFC Bank has *inter alia* disclosed as below:

"As India's largest private sector Bank, we have always stayed strong in our commitment to positively impact the environment, our customers, employees, and the community at large. Our core values have guided our ESG practices, which seek to drive growth and empower communities through our corporate decision-making processes. In FY 2014-15, sustainability was officially included as our fifth value, alongside customer focus, operational excellence, product leadership, and people. This is testament to the fact that sustainability is now a part of our DNA.

As a testament to our commitment to the environment, we constituted a board governed environmental policy in 2019, which serves as a framework to understand and manage our environmental risks, impacts and opportunities. To further strengthen our vision and focus on ESG, we have established an Environmental Social & Governance (ESG) committee, which is a management level committee comprising of senior members across major functions at the Bank, chaired by a member of the senior management team. The ESG Committee reports to the Corporate Social Responsibility (CSR) committee of the Board of Directors on the Bank's ESG strategy and road map to achieve set targets. Functionally, the main ESG committee is further segregated into 3 sub committees for focused discussions.

- Environment Sub-Committee: Sets targets and identifies opportunities for improvement in areas of emissions, energy, water and waste
- Social & Governance Sub-Committee: Focuses on work place policies including Code of Conduct & Human Rights, diversity, stakeholder engagement and corporate governance policies
- Product Responsibility Sub-Committee: Focuses on assessing Environmental & Social (E&S) risks, including climate risks in our existing portfolio and identify new business opportunities in the E&S space.

TATA MOTORS

Tata motors limited reported a S&P Global ESG Score 2022 of 64/100, a jump of 18% from their FY 21 score. Some of it sustainability efforts in FY 2022 are reported as below:

Preserving Nature and Biodiversity (Going beyond Planting Trees)

- In FY22 Tata Motors has now planted ~ 1 million saplings across the country as a part of customer touch point initiative. Our Biodiversity and Nature strategy aspires to go beyond, guided by science and leveraging Nature based Solutions to deliver Biodiversity and Community co-benefits. Tata Motors Ltd. is committed to source 100% of its electricity needs through Renewable Sources by 2030
- Tata Motors launched 'AIKYAM', a platform for collaboration, innovation, knowledge sharing and co-creating the Supply Chain Sustainability roadmap.
- Fatality free 1 year completed. Injury rates decreasing as a result of implementation of "Zero Incident Plan."

LESSON ROUND-UP

- Sustainability in business refers to a company's strategy to reduce negative environmental impact resulting from their operations in a particular market.
- The concept of sustainable development fostered reporting on sustainability and reporting on sustainability paved the way for emergence of sustainability audit. The concept of sustainability audit has evolved over the years as society's understanding of sustainability has expanded and as organizations have become increasingly aware of their impact on the environment and society besides their bottom-line.
- Sustainability Audit is a comprehensive assessment of an organization's environmental, social and economic impacts. It is a targeted evaluation of a company's current sustainable workplace practices such that by identifying the current environmental impact, the company can set out initiatives for executing and promoting improved sustainable measures.
- An organization's sustainability practices are typically analyzed against environmental, social, and governance (ESG) metrics.
- An ESG rating measures a company's exposure to long-term environmental, social, and governance risks. Along with ESG reporting, ESG ratings help investors understand a company's priorities and the long-term risks it could face in the future
- ESG reporting in India commenced in 2009 with the Ministry of Corporate Affairs (MCA) issuing the Voluntary Guidelines on Corporate Social Responsibility.
- The Companies Act, 2013 introduced one of the first ESG disclosure requirements for companies.
- The Securities and Exchange Board of India ("SEBI") introduced the requirement of ESG reporting back in 2012 and mandated that the top 100 listed companies by market capitalisation file a BRR. This was later extended to the top 500 listed companies by market capitalisation in 2015. In 2021 SEBI introduced new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report ("BRSR")

GLOSSARY

Business resilience: The ability of an organisation to adapt in a changing environment to enable it to achieve its objectives and prosper.

Carbon footprint: Total emissions of greenhouse gases (in carbon equivalent) for an activity or organisation over a given period of time.

E-waste: Discarded electronic appliances such as mobile phones, computers, and televisions.

Integrated reporting: An approach to corporate reporting that integrates financial information and non-financial (e.g. sustainability) information into a single document to show how a company is performing.

Product stewardship: A concept where businesses take responsibility for the environmental impact of the products they make, sell or buy. This involves all stages of the product's life cycle, including end-of-life management.

Renewable energy: Energy that comes from natural sources that are constantly replenished like wind, water and sunlight.

Shared value: A management principle that seeks market opportunities for business to solve social problems. 'Creating Shared Value' was first introduced in the Harvard Business Review in 2011, based on the principle that the competitiveness of a company and the health of the communities around it are mutually dependent.

Sustainability: A balance of society, economy and environment for long-term resilience.

Sustainable Development Goals (SDGs): A collection of 17 interlinked global goals designed to end poverty, protect the planet and ensure that all people enjoy peace and prosperity by 2030. They were adopted by the UN in 2015.

Triple bottom line: A phrase first coined by John Elkington in 1994, describing the separate but interdependent financial, social and environmental 'bottom lines' of companies.

TEST YOURSELF

(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)

1. What is the need for a sustainability audit? How does it benefit the company and the stakeholders?
2. Are company secretaries capacitated to conduct sustainability audit of organisations?
3. What do you understand about ESG Ratings? How are they different from other ratings like Credit Ratings?
4. Write a note on few ESG Rating Orgainsations.
5. Chart the growth of ESG Reporting Framework in India
6. What are the legal provisions concerning ESG Reporting in India?
7. Compare the ESG reporting framework in India with other developed nations.
8. What is the way forward for ESG reporting?

LIST OF FURTHER READINGS

- Values at Work: Sustainable Investing and ESG Reporting - by Daniel C. Esty (Editor), Todd Cort (Editor)
- Integrated Sustainability Reporting: Linking Environmental and Social Information to Value Creation Processes - by Laura Bini (Author), Marco Bellucci (Author)
- White paper on "Navigating the Changing Landscape of ESG Regulations"
- Guidance Document On ESG Disclosures by BSE

OTHER REFERENCES

- Making ESG data accessible, comparable and transparent - https://www.esgbook.com/
- https://www.mckinsey.com/~/media/s/Our%20Insights/From%20why%20to%20why%20not%20Sustainable%20investing%20as%20the%20new%20normal/From-why-to-why-not-Sustainable-investing-as-the-new-normal.ashx
- https://www.mckinsey.com/industries/private-equity-and-principal-investors/our-insights/from-why-to-why-not-sustainable-investing-as-the-new-normal
- https://online.hbs.edu/blog/post/sustainable-investing
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