Integrated Reporting Framework; Global Reporting Initiative Framework; Business Responsibility & Sustainability Reporting

Lesson 20

KEY CONCEPTS

■ Integrated Report ■ IR Framework, Integrated Thinking ■ IFRS ■ GRI ■ GRI Standards ■ Sustainability Reporting, Sustainable Disclosure, ESG Reporting, BRSR

Learning Objectives

To understand:

- Integrated Reporting
- Global Reporting Initiative
- Business Responsibility & Sustainability Reporting

Lesson Outline

- Introduction
- Evolution of Integrated Reporting Framework
- Structure of Integrated Reporting Framework
- Benefits of Integrated Reporting
- Challenges in implementing IR Framework
- GRI Standards for reporting
- Understanding the GRI framework
- Reporting process under GRI Framework
- Evolution of ESG reporting in India
- BRR to BRSR – A comparative study
- Overview and applicability of BRSR
- Structure / Framework of BRSR
- Benefits of BRS reporting
- Challenges of BRS reporting
- Lesson Round-Up
- Glossary
- Test Yourself
- List of Further Readings
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INTEGRATED REPORTING FRAMEWORK

Introduction

Integrated reporting is part of an evolving corporate reporting system. This system is enabled by comprehensive frameworks and standards, addressing measurement and disclosure in relation to all capitals, appropriate regulation and effective assurance.

The Integrated Reporting Framework defines integrated reporting as ***'a process founded on integrated thinking that results in a periodic integrated report by an organization about value creation over time and related communications regarding aspects of value creation.'***

Integrated reporting brings together material information about an organization's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It provides a clear and concise representation of how the organization demonstrates stewardship and how it creates value, now and in the future.

But integrated reporting isn't just a reporting process. It's founded on integrated thinking, or systems thinking. Integrated thinking drives an improved understanding of how value is created and enhances decision-making by boards and management. The more integrated thinking is embedded in daily operations, the more naturally this information will be expressed in internal and external communications. On this basis, integrated thinking and integrated reporting are mutually reinforcing.

An integrated report is a concise communication about an organisation's strategy, governance, performance and prospects. Presenting each topic in the context of the organisation's external environment, the report summarises how the organisation creates value in the short, medium and long term. The integrated report is the most visible and tangible product of integrated reporting. It is a concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to value creation over time.

Integrated reporting is consistent with developments in financial and other reporting, but an integrated report also differs from other reports and communications in a number of ways. In particular, it focuses on the ability of an organization to create value in the short, medium and long term, and in so doing it:

- Has a combined emphasis on conciseness, strategic focus and future orientation, the connectivity of information and the capitals and their interdependencies;
- Emphasizes the importance of integrated thinking within the organization.

Integrated reporting promotes a more cohesive and efficient approach to corporate reporting and aims to improve the quality of information available to providers of financial capital to enable a more efficient and productive allocation of capital.

The primary purpose of an integrated report is to explain to providers of financial capital how an organization creates, preserves or erodes value over time. An integrated report benefits all stakeholders interested in an organization's ability to create value over time, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policy-makers. An integrated report benefits all stakeholders interested in a company's ability to create value, including employees, customers, suppliers, business partners, local communities, legislators, regulators and policymakers, although it is not directly aimed at all stakeholders.

Historical financial statements are essential in corporate reporting, particularly for compliance purposes, but do not provide meaningful information regarding business value. Users need a more forward-looking focus without the necessity of companies providing their own forecasts and projections. Companies have recognised the benefits of showing a fuller picture of company value and a more holistic view of the organisation.

The Integrated Reporting framework (IR) was developed by the International Integrated Reporting Council (IIRC). It explains the concepts of integrated reporting, establishes Fundamental Concepts, Guiding Principles and Content Elements governing the preparation and presentation of an integrated report. It's written primarily in the context of private sector, for-profit companies of any size, but is also applied by public sector and not-for-profit organizations.

EVOLUTION OF INTEGRATED REPORTING FRAMEWORK

The idea of Integrated Report is viewed to have stemmed from the concept of capitalism. Until 2007, the accepted definition of capitalism was the efficient allocation of capital to deliver returns to investors over the short, medium, and long term. In 2007, the Global Financial Crisis (GFC) disrupted the world economy and raised questions about organizations' dependence on short-term financial factors and complete misrecognition of their interactions with nature. The need for change was evident – a reporting methodology that focuses on financial data and at a same time also provides for sustainability-related information.

In 2009, the Prince of Wales held a high-level meeting of investors; companies; accounting bodies; and representatives of Unites Nations (UN), Accounting for Sustainability Project, International Federation of Accountants (IFAC) and the Global Reporting Initiative (GRI). This resulted in the establishment of the International Integrated Reporting Committee (IIRC). IIRC's aim was to oversee the creation of an Integrated Reporting framework. In 2011, the Committee was renamed the International Integrated Reporting Council (IIRC).

The International Integrated Reporting Council (IIRC) was a global coalition of regulators, investors, companies, standard setters, the accounting profession, academia and NGOs. Together, this coalition shared the view that communication about value creation, preservation or erosion is the next step in the evolution of corporate reporting.

A Pilot Programme began in 2011. It included over 90 businesses that were ready to challenge and change orthodox ways of reporting and promote responsible stakeholder communication. Two years later, in 2013, IIRC published the framework defining the guiding principles.

The Integrated Reporting Framework was developed in 2013.

The framework is based on integrated thinking. Integrated thinking is the process that an organization follows while creating an Integrated Report.

In November 2020, the IIRC and Sustainability Accounting Standards Board (SASB) announced a potential merger which was finalized in June 2021, resulting in the Value Reporting Foundation (VRF).

The Integrated Reporting Framework was revised in 2021, following extensive consultation and testing by report preparers and users in all regions of the world.

In August 2022, the Value Reporting Foundation merged with the IFRS Foundation. The IFRS Foundation is a not-for-profit, public interest organisation established to develop high-quality, understandable, enforceable and globally accepted accounting and sustainability disclosure standards. As of August 2022, the IFRS Foundation assumed responsibility for the Integrated Reporting Framework.

IFRS Standards are developed by our two standard-setting boards, the International Accounting Standards Board (IASB) and International Sustainability Standards Board (ISSB).

The International <IR> Framework (January 2021) supersedes the International <IR> Framework (December 2013). This latest version applies to reporting periods commencing 1 January 2022.

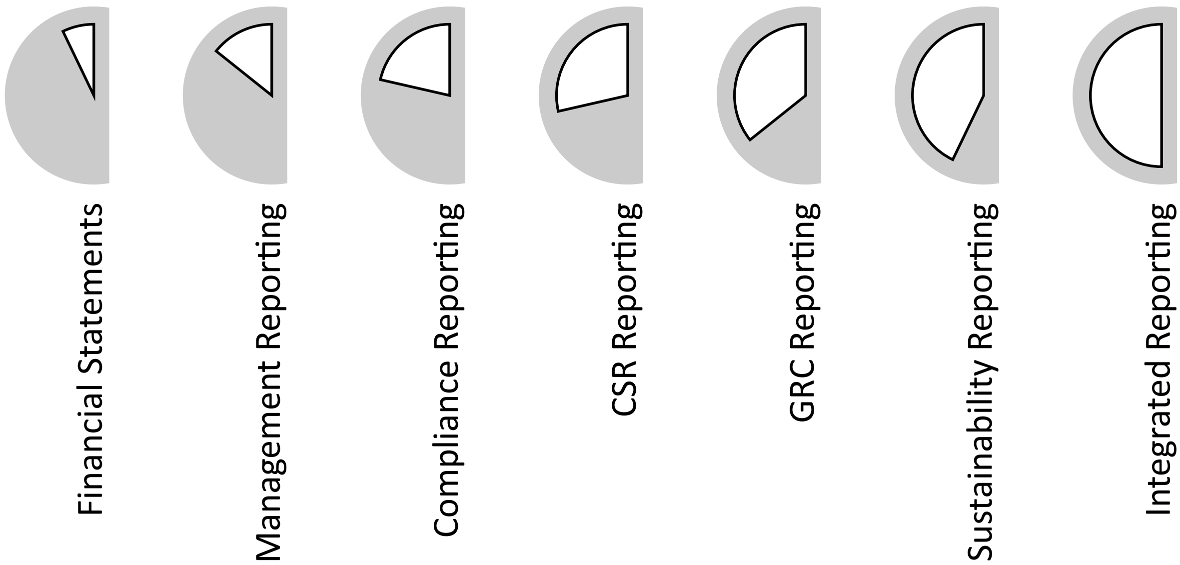

FIG. 1 – Evolution of Integrated Reporting

(*Source :www.Integratedreporting.org*)

STRUCTURE OF THE INTEGRATED REPORTING FRAMEWORK

"We've overspent our financial, environmental, social and governance "capital" and now the debt's come due. Integrated Reporting is the starting point to help us repay that debt."

Brad J. Monterio

The IR Framework is principles-based. The intent of the principles-based approach is to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations while enabling a sufficient degree of comparability across organizations to meet relevant information needs.

The IR Framework does not prescribe specific key performance indicators, measurement methods or the disclosure of individual matters. Those responsible for the preparation and presentation of the integrated report therefore need to exercise judgement, given the specific circumstances of the organization, to determine:

- Which matters are material
- How they are disclosed, including the application of generally accepted measurement and disclosure methods as appropriate. When information in an integrated report is similar to, or based on other information published by the organization, it is prepared on the same basis as, or is easily reconcilable with, that other information.

A. Guiding Principles

Seven Guiding Principles underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented:

Strategic focus and future orientation

An integrated report should provide insight into the organization's strategy, and how it relates to the organization's ability to create value in the short, medium and long term, and to its use of and effects on the capitals.

Connectivity of information

An integrated report should show a holistic picture of the combination, interrelatedness and dependencies between the factors that affect the organization's ability to create value over time.

Stakeholder relationships

An integrated report should provide insight into the nature and quality of the organization's relationships with its key stakeholders, including how and to what extent the organization understands, takes into account and responds to their legitimate needs and interests.

Materiality

An integrated report should disclose information about matters that substantively affect the organization's ability to create value over the short, medium and long term.

Conciseness

An integrated report should be concise

Reliability and completeness

An integrated report should include all material matters, both positive and negative, in a balanced way and without material error.

Consistency and comparability

The information in an integrated report should be presented:

(a) on a basis that is consistent over time; and

(b) in a way that enables comparison with other organizations to the extent it is material to the organization's own ability to create value over time.

These Guiding Principles are applied individually and collectively for the purpose of preparing and presenting an integrated report; accordingly, judgement is needed in applying them, particularly when there is an apparent tension between them (e.g. between conciseness and completeness).

B. Content Elements

An integrated report includes eight Content Elements that are fundamentally linked to each other and are not mutually exclusive, posed in the form of questions to be answered. The Content Elements are not intended to serve as a standard structure for an integrated report with information about them appearing in a set sequence or as isolated, standalone sections. Rather, information in an integrated report is presented in a way that makes the connections between the Content Elements apparent.

The content of an organization's integrated report will depend on the individual circumstances of the organization. The Content Elements are therefore stated in the form of questions rather than as checklists of specific disclosures. Accordingly, judgement needs to be exercised in applying the Guiding Principles to determine what information is reported, as well as how it is reported.

Organizational overview and external environment

What does the organization do and what are the circumstances under which it operates?

Governance

How does the organization's governance structure support its ability to create value in the short, medium and long term?

Business model

What is the organization's business model?

Risks and opportunities

What are the specific risks and opportunities that affect the organization's ability to create value over the short, medium and long term, and how is the organization dealing with them?

Strategy and resource allocation

Where does the organization want to go and how does it intend to get there?

Performance

To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?

Outlook

What challenges and uncertainties is the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?

Basis of presentation

How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?

BENEFITS OF INTEGRATED REPORTING

The corporate landscape is changing and Integrated Reporting is an ideal tool with which to explore value creation. This direction of travel – which is voluntary – is focused on driving more authentic, comprehensive and meaningful information about all aspects of an organisation's performance and value creation story delivering benefits for both internal and external stakeholders. Quite simply, Integrated Reporting (<IR>) is considered by many to be the future of corporate reporting.

Integrated Reporting brings together material information about an organisation's strategy, governance, performance and prospects in a way that reflects the commercial, social and environmental context within which it operates. It leads to a clear and concise articulation of the organisation's value creation story which is useful and relevant to all stakeholders.

There are a multitude of benefits associated with Integrated Reporting - both within an organisation and from an external perspective, such as:

Integrated Report shows the **holistic picture** of a company about future targets, it also shows the **links between financial and non-financial performances**, thus the links between financial and sustainability performances in the single document. Bringing governance issues, financial capital, intellectual capital, social capital and environmental capital onto common platform could **enhance the transparency and accountability** on corporate governance.

For companies providing different separate reports, IR enables them to avoid the prioritization dilemma that they experience as to which stakeholder group should the particular report be produced first with respect to their relative importance. The confusion arise due to huge publication costs, press conference costs for each report, therefore for small and medium sized local companies which could ideally be aiming to reduce costs, **adoption of integrated reporting could bring about substantial savings.**

Integrated reporting **promotes greater clarity, lowers reputational risk.** For instance, normally in the State-Owned Companies, there are issues of transparency of how resources are allocated, IR would enable better understanding of the capitals and their related outcomes, therefore lowers reputational risk. There are perceived internal benefits involving improved internal resource benefits and challenges with adoption of the integrated reporting framework allocation decisions, greater engagement with shareholders and other stakeholders.

Integrated reporting **enhances the reputation and the brand of an organization** to the external market, as it is able to meet the needs of the stakeholders who want environmental, social and governance information, consequently evaluation of performance and there could be perceived challenges of the need to change the management information systems, which could be costly for micro and small and medium-sized companies in order to implement the requirements of the report content. The practical realization of benefits depends on the ethical qualities, such as honesty, fairness and integrity embedded in the companies' values being upheld.

BENEFITS OF INTEGRATED REPORTING

- Encouraging your organisation to think in an integrated way
- Clearer articulation of strategy and business model
- A single report that is easy to access, clear and concise
- Creating value for stakeholders through identification and measurement of non-financial factors
- Linking of non-financial performance more directly to the business
- Better identification of risk and opportunities
- Improved internal processes leading to a better understanding of the business and improved decision making process.

CHALLENGES IN IMPLEMENTING INTEGRATED REPORTING FRAMEWORK

The critical challenge of integrated reporting is converting the traditional report that is only concerned with financial terms and related disclosures about an organization's value creation. The conventional report is very lengthy, so it is challenging to make it concise. Also, integrated reporting is compliance-based reporting which is difficult for many organizations to prepare.

Another limitation of integrated reporting is, it doesn't provide detailed information. Also, it includes non-financial information, due to which it is more time-consuming to prepare.

It requires high expertise for understanding this report because it is a concise report explaining the matter in summary.

Describing company's business model in relation to the Framework is one the hardest aspects to implement, because of the Framework's capitals-based approach.

Conciseness is also a challenge when reporters want to include new information, either to meet regulatory requirements or because additional content could be helpful to readers. Many reporters find conciseness difficult as they try to provide sufficient context to help readers understand the organisation's value-creation process and performance.

Few other challenges include:

- Lack of standardization,
- Reluctance in disclosing sensitive information,
- Lack of importance of non-financial information, associated cost of reporting, difficulties with measuring and linking sustainability performance.

GLOBAL REPORTING INITIATIVE FRAMEWORK

Introduction

Global Reporting Initiative (GRI) is an organization that provides a framework for sustainability reporting that can be used by all types of organizations. Its Guidelines on sustainability reporting are widely used.

GRI is an independent, international organization that helps businesses and other organizations take responsibility for their impacts, by providing them with the global common language to communicate those impacts.

The GRI was formed by the United States based non-profits Coalition for Environmentally Responsible Economies (CERES) and Tellus Institute, with the support of the United Nations Environment Programme (UNEP) in 1997. It has its Secretariat in Amsterdam. Although the GRI is independent, it remains a collaborating centre of UNEP and works in co-operation with the United Nations Global Compact.

GRI's Mission is to make sustainability reporting standard practice by providing guidance and support that enable organizations to report transparently and accountably, as drivers of the transition to a sustainable global economy.

As GRI grew, the reporting system was broadened to include social, economic, and governance issues.

GRI Standards for Reporting

The GRI Standards are a modular system of interconnected standards. They allow organizations to publicly report the impacts of their activities in a structured way that is transparent to stakeholders and other interested parties.

Three series of Standards support the reporting process: the **GRI Topic Standards,** each dedicated to a particular topic and listing disclosures relevant to that topic; the **GRI Sector Standards,** applicable to specific sectors; and the **GRI Universal Standards,** which apply to all organizations.

Using these Standards to determine what topics are material (relevant) to report on helps organizations indicate their contributions – positive or negative – towards sustainable development.

a) GRI Universal Standards

The GRI Universal Standards apply to all organizations, and consist of the following:

- **GRI 1: Foundation 2021 (GRI 1)** outlines the purpose of the GRI Standards, clarifies critical concepts, and explains how to use the Standards. It lists the requirements that an organization must comply with to report in accordance with the GRI Standards. It also specifies the principles – such as accuracy, balance, and verifiability – fundamental to good-quality reporting.
- **GRI 2: General Disclosures 2021 (GRI 2)** contains disclosures relating to details about an organization's structure and reporting practices; activities and workers; governance; strategy; policies; practices; and stakeholder engagement. These give insight into the organization's profile and scale, and help in providing a context for understanding an organization's impacts.
- **GRI 3: Material Topics 2021 (GRI 3)** explains the steps by which an organization can determine the topics most relevant to its impacts, its material topics, and describes how the Sector Standards are used in this process. It also contains disclosures for reporting its list of material topics; the process by which the organization has determined its material topics; and how it manages each topic.

b) GRI Sector Standards

The GRI Sector Standards intend to increase the quality, completeness, and consistency of reporting by organizations. Standards were initially developed for 40 sectors, starting with those with the highest impact, such as oil and gas, agriculture, aquaculture, and fishing. The Standards list topics that are likely to be material for most organizations in a given sector, and indicate relevant disclosures to report on these topics. If an applicable Sector Standard is available, an organization is obliged ('required') to use it when reporting with the GRI Standards.

Each Sector Standard consists of an initial section that gives an overview of the sector's characteristics, including the activities and business relationships that can underpin its impacts. The main section of the Standard then lists the likely material topics for the sector. Topic by topic, the most significant impacts associated with the sector are described in this section. Each topic description points to the relevant disclosures in the Topic Standards for the organization to report. A Sector Standard may also list additional disclosures that are not in a Topic Standard, for example, where the disclosures from the Topic Standard do not provide sufficient information about the organization's impacts concerning the topic. The topics and associated disclosures are determined using sector-specific evidence, international instruments, and advice from sector experts. Consequently, they reflect the expectations of a wide range of stakeholders regarding the management of impacts in the sector.

c) GRI Topic Standards

The GRI Topic Standards contain disclosures for providing information on topics. Examples include Standards on waste, occupational health and safety, and tax. Each Standard incorporates an overview of the topic and disclosures specific to the topic and how an organization manages its associated impacts. An organization selects those Topic Standards that correspond to the material topics it has determined and uses them for reporting.

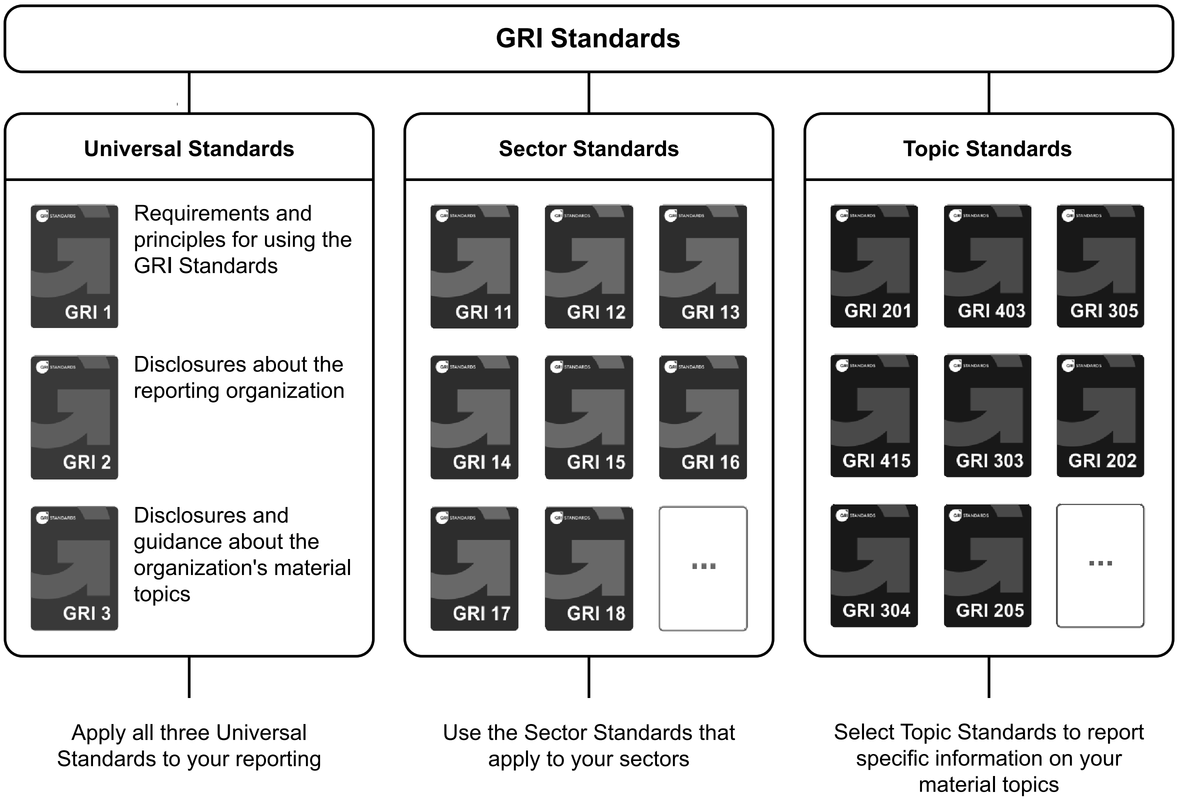

FIG. 2 – GRI Standards

(Source: www.globalreporting.org)

Understanding the GRI Framework

GRI reporting protocols aim to cover a wide range of ESG issues, from employee safety and human rights to environmental management. In order to determine the weight of greenhouse gas emissions (GHG) generated on-site, companies must carefully track their product usage, chemical inventory, and control technologies. This is also true for water consumption and waste tracking as well as hazardous waste generation. These are all part of the GRI reporting framework that will require a deeper knowledge of company processes and supply chains, as well as comprehensive data inputs.

The GRI offers 30 environmental performance indicators that should be used as part of the environmental sustainability report. These performance indicators are divided into nine primary categories:

1. **Materials:** Includes raw materials (natural resources, manufactured chemicals, and materials needed for manufacturing) as well as packaging materials and recycled product content.
2. **Energy:** Includes direct and indirect energy consumption, renewable energy amounts used, such as wind, solar, and geothermal, and efforts made to reduce energy requirements through more energy efficient processes.
3. **Water:** Covers the total amount of water withdrawn from water sources and company impact on those water sources, as well as the percentage and total volume of water that is recycled or reused.
4. **Biodiversity:** Provides information regarding company impact on the biodiversity of adjacent/nearby protected areas and/or areas considered to have high biodiversity, as well as company strategies for managing impacts on biodiversity.
5. **Emissions, Effluents, Waste:** Includes total weight of direct and indirect emission of GHGs, ozone-depleting emissions, and NOx, SOx, and other air emissions by type; total water discharge by quality and destination; total weight of waste generated by type and disposal method; total weight of treated, transported, or imported hazardous waste either as well as the percentage of waste shipped internationally; total volume and number of spills on and off-site.
6. **Products and Services:** Provides the percentage of products sold and packaging materials that are reclaimed/recycled.
7. **Compliance:** Provides the total monetary value of noncompliance fines and number of noncompliance sanctions.
8. **Transport:** Describes the impact of transporting your materials and finished products.
9. **Overall:** Provides the total values of environmental protection expenses and investments.

REPORTING PROCESS UNDER GRI FRAMEWORK

The foundation of sustainability reporting is for an organization to identify and prioritize its impacts on the economy, environment, and people – to be transparent about their impacts.

GRI 1 is the starting point for all organizations reporting using the GRI Standards in that it lays out key concepts and principles, and lists the requirements for reporting in accordance with the GRI Standards.

Identifying and assessing impacts

Identifying its impacts and assessing their significance is part of an organization's day-to-day activity, which varies according to its specific circumstances.

The Sector Standards are of help at this point in that they describe the characteristics of a sector that underlie its impacts. The topics and impacts listed in the Sector Standards provide a valuable means of identifying an organization's impacts. An organization needs to consider the impacts described, and decide whether these impacts apply to it.

Understanding an organization's context is a crucial factor in identifying and assessing the significance of its impacts.

GRI 2 aids in this process by specifying disclosures in detail for different aspects of an organization's activities (reporting practices, governance).

GRI 3 explains step-by step how to identify and assess impacts together with their significance.

Once an organization has assessed the significance of its impacts, it needs to decide on which to report. To do this, it needs to prioritize the impacts. Grouping the impacts into topics (such as 'water and effluents' or 'child labor') facilitates this, as it indicates what topics are most relevant to the organization's activities - its material topics. GRI 3 also contains a step-by-step explanation of how to organize this grouping. To report in accordance with the GRI Standards, an organization needs to document the process by which it determined its material topics, and the disclosures contained in GRI 3 facilitate this.

Again, the Sector Standards are part of the process of determining material topics. An organization should test its selection of material topics against the topics in the applicable Sector Standard. This helps the organization ensure that it has not overlooked any topics that are likely to be material for the sector. If an applicable Sector Standard is available, then an organization is obliged to use it when reporting in accordance with the GRI Standards. Using the Sector Standards is not a substitute for determining material topics, but an aid. However, the organization still needs to consider its specific circumstances when selecting its material topics.

Reporting disclosures

An organization that has determined its material topics needs to gather relevant data to report specific information on each topic. The topics in a Sector Standard list specific disclosures from the Topic Standards identified for reporting on the topic by an organization in the sector. Where relevant, additional disclosures specific to the sector are included.

The disclosures in the Topic Standards specify the information that needs to be collected to report according to the GRI Standards. Together with the disclosures from GRI 2 and GRI 3, they provide a structured way of reporting this information. If an organization cannot comply with the particular reporting requirements, it is in certain instances permitted to omit the information, provided that a valid reason is given for the omission. In addition to the requirements listed under these disclosures, there are also recommendations and guidance that would add to the quality and transparency of a report.

Reporting in accordance with the GRI Standards

The GRI Standards allow an organization to report information in a way that covers all its most significant impacts on the economy, environment, and people, or to focus only on specific topics, such as climate change or child labor. GRI recommends reporting in accordance with the GRI Standards. Under this approach, the organization reports on all its material topics and related impacts and how it manages these topics. This reporting approach provides a comprehensive picture of an organization's most significant impacts on the economy, environment, and people. However, if an organization cannot fulfill some of the requirements to report in accordance with the GRI Standards or only wants to report specific information for specific purposes, such as when complying with regulatory requirements; in that case, it can use selected GRI Standards or parts of their content, and report with reference to the GRI Standards.

Navigating a report

Reports using the GRI Standards may be published in various formats (e.g., electronic, paper-based) and made accessible across one or more locations (e.g., standalone sustainability report, webpages, annual report). Reports must contain a GRI content index. The content index makes reported information traceable and increases the report's credibility and transparency. The content index provides an overview of the organization's reported information and helps stakeholders navigate the report at a glance. It specifies the GRI Standards that the organization has used. The index also lists the location, such as a page number or URL, for all disclosures that the organization has used to report on its material topics. The content index can also help a stakeholder understand what the organization has not reported. The organization must specify in the content index if a 'reason for omission' is being used. In addition, the disclosure or the requirement that the organization cannot comply with, together with an explanation, must be listed in the content index. If Sector Standards apply to the organization, Sector Standard reference numbers provide a unique identifier for each disclosure listed in a Sector Standard. This helps information users assess which of the disclosures listed in the applicable Sector Standards are included in the organization's reporting.

GRI reporting is broken down into a five-step process:

- **Step 1: Prepare** - Organizations define a vision for the report, create a report team, develop a plan of action, and set a kickoff meeting.
- **Step 2: Connect** - Companies identify, hold meetings, and set priorities with key stakeholders in order to determine reporting priorities and define scope.
- **Step 3: Define** - The reporting team selects issues for action and reporting as well as decides on the report content.
- **Step 4: Monitor** - The reporting team monitors activities and records data, checks processes and systems, ensures quality of information, and follows up as needed.
- **Step 5: Report** - Companies choose the best way to communicate, write, finalize, and launch the report publicly.

BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING

Introduction

As per Global Reporting Initiative (GRI), *"A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy."*

Sustainability Reporting or Non-Financial Reporting is the process of communicating the social, environmental and governance effects of a company's operations to the stakeholders at large. Many companies have realized the importance of factoring in environmental, social and governance parameters in the business strategy of the company. It is also felt that companies that disclose their sustainability efforts are rewarded by the market.

With sustainable development and the climate change movement gaining momentum, the sustainability reporting landscape is changing rapidly around the globe. The push from investors has further accelerated this movement, and it is now incumbent on companies to report their sustainability performance in order to maintain transparency with stakeholders. Sustainability reporting frameworks have evolved over time and companies worldwide have adopted these frameworks for measuring, monitoring and disclosing performance in areas related to environmental, social and governance (ESG).

Global ESG/sustainability disclosures and frameworks such as the Global Reporting Initiative (GRI), Integrated Reporting (IR), Sustainability Accounting Standards Board (SASB), United Nations Global Compact (UNGC) and CDP require businesses to disclose their sustainability performance as per the respective key performance indicators (KPIs) and principles. ISO 26000 offers voluntary guidance on social responsibility. Many countries around the world have introduced and mandated some form of ESG related disclosures.

The BRSR is intended towards having quantitative and standardized disclosures on ESG parameters to enable comparability across companies, sectors and time. Such disclosures will be helpful for investors to make better investment decisions. The BRSR shall also enable companies to engage more meaningfully with their stakeholders, by encouraging them to look beyond financials and towards social and environmental impacts.

EVOLUTION OF ESG REPORTING IN INDIA

ESG reporting in India started in 2009 with the Ministry of Corporate Affairs (MCA) issuing the Voluntary Guidelines on Corporate Social Responsibility as the first step towards mainstreaming the concept of business responsibility. Since then, the reporting landscape has come a long way with the introduction of Business Responsibility Reporting (BRR), Corporate Social Responsibility (CSR), IR, National Guidelines on Responsible Business Conduct (NGRBC) and now Business Responsibility and Sustainability Report (BRSR).

When the Ministry of Corporate Affairs (MCA) released the National Voluntary Guidelines (NVG), there was no India-specific corporate framework, either voluntary or compulsory, relating to sustainable development till 2011.

The National Voluntary Guidelines (NVGs) released by MCA in the year 2011 is a set of guidelines for Indian business enterprises to operate considering their responsibilities related to the economy, environment and society. It is based on the triple bottom line (TBL) principle of sustainability, and is appropriate for organizations of every size, sector and management, and is specific to the Indian context.

It had 9 elements, viz., human right, ethics, product life cycle sustainability, accountability and transparency, well-being of the employees, engagement of Stakeholder, Human rights, Environment, Policy advocacy, Inclusive growth and equitable development and value to customers.

There are guidelines in NVG to implement the use of its four concepts of leadership, integration, engagement and reporting.

It also had supplementary annexures that laid out the business case for taking up the guidelines and the related regulatory frameworks and legislation. It had a separate section for the Micro, Small, and Medium Enterprises (MSMEs) and about the methods of application.

The organizations were directed by The Securities and Exchange Board of India (SEBI) to release an annual report on their Business Responsibility (BR) in line with the NVGs.

After the National Voluntary Guidelines (NVGs) were released by the Ministry of Corporate Affairs in the year 2011, indicating the Social, Environmental and Economic Responsibilities of Business, SEBI made it compulsory for the top 100 listed companies to disclose non-financial data pertaining to environmental and social responsibilities through Business Responsibility Report (BRR).

After the MCA released the National Guidelines on Responsible Business Conduct (NGRBCs), it constituted a Committee on Business Responsibility Reporting to finalise business responsibility reporting formats for listed and unlisted companies, based on the framework of the NGRBC. Through its 'Report of the Committee on Business Responsibility Reporting', the Committee recommended that BRR be rechristened BRSR, where disclosures are based on ESG parameters, compelling organisation's to holistically engage with stakeholders and go beyond regulatory compliances in terms of business measures and their reporting.

The BRSR framework has been developed after years of evolution, as can be seen from the table below:

Year	***Event***
2009	Ministry of Corporate Affairs ("MCA") issued the Voluntary Guidelines on CSR as a step towards mainstreaming the concept of business responsibility.
2011	United Nations Human Rights Council (UNHRC) adopted UN Guiding Principles on Business and Human Rights (UNGPs) which India endorsed.
2011	MCA issued National Voluntary Guidelines on Social Environmental and Economic Responsibilities of Business, 2oo (NVGs)
2012	SEBI introduced non-financial reporting in the form of Business Responsibility Report (BRR) and mandated the top 100 listed companies by market capitalization to file BRR based on the MCA's NVGs along with their annual reports.
2014	CSR was mandated and CSR Rules came into force.
2016	BRR was extended by SEBI to the top 500 listed companies by market capitalisation.
2017	SEBI advised that IR may be adopted by companies on a voluntary basis from financial year 2017-18 by the top 500 listed companies.
2019	NVGs were revised and MCA released the National Guidelines on Responsible Business Conduct (NGBRCs).
2019	BRR was extended by SEBI to the top 1000 listed companies by market capitalization.

2019-20	MCA formed a Committee to align BRR format in line with NGBRCs. Committee prescribed a revised format to reflect the intent and scope of reporting requirement and recommended that BRR be renamed as Business Responsibility and Sustainability Report (BRSR). It was also envisaged that the information collected through BRSR be used to develop a Business Responsibility – Sustainability Index for companies. SEBI issued consultation paper inviting public comments on format of BRSR
2021	SEBI introduced BRSR in May 2021.

BRR TO BRSR – A COMPARATIVE STUDY

The BRR was introduced in August 2012. It was SEBI's reporting requirement, which was in tune with the National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business.

BRR guidelines on sustainability information can be classified into five (5) categories as below:

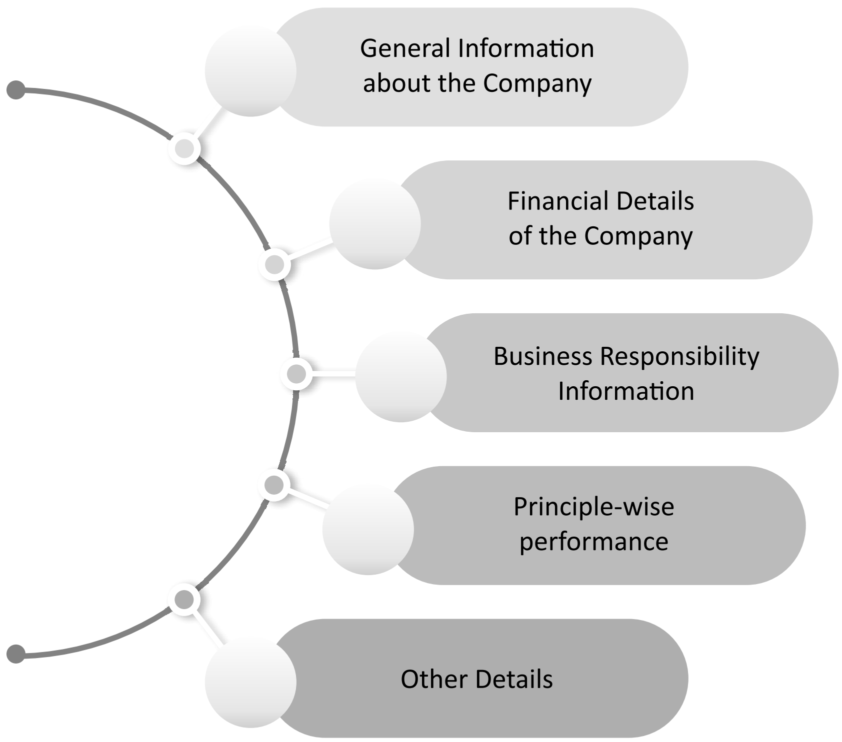

FIG. 3 - Business Responsibility Report Classification

Both the BRSR and the BRR were designed around the nine business sustainability principles identified by the Ministry of Corporate Affairs in their voluntary ESG guidelines published in 2011 ("MCA ESG Guidelines"), but that is where the similarity ended.

The BRR was not well received, since it based its ESG disclosure requirements almost entirely on the nine sustainability principles from the MCA ESG Guidelines (often, as a Y/N questionnaire) and provided very little meaningful ESG data. The BRSR, on the other hand, built upon the framework of the MCA ESG Guidelines, derives inspiration from international reporting frameworks like the GRI standards, and provides for detailed ESG data, both qualitative and quantitative.

OVERVIEW AND APPLICABILITY OF BRSR

SEBI has played a key role in promoting sustainability reporting in India by issuing the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015. On 05th May, 2021 SEBI *vide* Notification No.SEBI/LAD-NRO/GN/2021/22 amended Regulation 34(2)(f) of the SEBI (LODR), Regulations, 2015 and mandated top 1000 listed companies based on their market capitalization to prepare a Business Responsibility Report (BRR) describing the initiatives taken by the listed entity from an Environmental, Social and Governance (ESG) perspective, in the format as specified by SEBI from time to time and provided that

- BRR shall be discontinued after the financial year 2021–22;
- From the financial year 2022–23 the top 1000 listed entities based on market capitalization shall submit a Business Responsibility and Sustainability Report (BRSR) in the format as specified by SEBI from time to time;

On 10th May, 2021 SEBI issued another Circular No. SEBI/HO/CFD/CMD-2/P/CIR/2021/562 providing the Applicability of BRSR and Disclosure format. The said circular was rescinded with SEBI Master circular dated November 11, 2024.

With effect from the financial year 2022-2023, filing of BRSR has been made mandatory for the top 1000 listed companies (by market capitalization) and has replaced the existing BRR.

With ESG investing becoming more mainstream, SEBI's disclosure requirements through BRSR have been introduced to keep pace with such investment strategies, and growing concerns about responsible corporate governance and climate change.

BRSR is an essential component of sustainability finance that aims to integrate sustainability considerations into a company's reporting and disclosure practices. The increasing global concerns about climate change, social inequality, and environmental degradation have led to a growing demand for businesses to disclose their ESG performance to stakeholders. BRSR helps businesses communicate their sustainability performance, challenges, and opportunities to their stakeholders transparently.

BRSR involves reporting on various ESG parameters, such as environmental impact, social and community development, governance practices, and economic performance. The disclosure of such information enables stakeholders to assess the company's sustainability performance and take informed decisions.

Apart from introducing a relatively comprehensive disclosure framework, BRSR also includes the following aspects, with an aim to enhance ESG complaint business practices in India:

- Implementation of the NGRBC principles to address ESG-related concerns;
- Disclosure of adequate policies and mechanism that a company implements to remain ESG-compliant. BRSR lays considerable emphasis on quantifiable metrics for ensuring comparison across sectors, companies, and time periods;
- Enhanced disclosures on climate and social related issues;
- Segregation of disclosures into essential and leadership indicators, the former being the mandatory requirement. The leadership indicators, inter alia, also emphasizes disclosures related to the value chain of eligible entities;
- BRSR allows interplay for organisations that are already publishing sustainability reports under other internationally recognized frameworks.

Business Responsibility and Sustainability Reporting by Listed Entities

Master circular for compliance with the provisions of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 by listed entities (SEBI/HO/CFD/PoD2/CIR/P/0155), November 11, 2024.

1. BRSR

1.1 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.

1.2 From the financial year 2022-23, in terms of the proviso to regulation 34 (2) (f) of the LODR Regulations, top 1000 listed entities based on market capitalization had to submit a Business Responsibility and Sustainability Report (BRSR) in the format as specified by the Board. Further, other listed entities can voluntarily submit such reports.

1.3 The BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct' (NGRBCs) 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 endeavour to report the leadership indictors also.

1.4 The BRSR is intended towards having quantitative and standardized disclosures on ESG parameters to enable comparability across companies, sectors and time. Such disclosures will be helpful for investors to make better investment decisions. The BRSR shall also enable companies to engage more meaningfully with their stakeholders, by encouraging them to look beyond financials and towards social and environmental impacts.

1.5 The listed entities already preparing and disclosing sustainability reports based on internationally accepted reporting frameworks (such as GRI, SASB, TCFD or Integrated Reporting) may cross reference the disclosures made under such framework to the disclosures sought under the BRSR.

1.6 The BRSR is accompanied with a guidance note to enable the companies to interpret the scope of disclosures.

BRSR Core

2.1 The BRSR Core is a sub-set of the BRSR, consisting of a set of Key Performance Indicators (KPIs) / metrics under 9 ESG attributes. Keeping in view the relevance to the Indian / Emerging market context, few new KPIs have been identified for assurance such as job creation in small towns, open-ness of business, gross wages paid to women etc. Further, for better global comparability intensity ratios based on revenue adjusted for Purchasing Power Parity (PPP) have been included.

2.2 In order to facilitate the verification process, the BRSR Core specifies the data and approach for reporting and assurance. It is however clarified that the approach specified is only a base methodology. Any changes or industry specific adjustments / estimations shall be disclosed.

2.3 For ease of reference, the BRSR Core contains a cross-reference to the disclosures contained in the BRSR.

2.4 Applicability

2.4.1 From FY 2023 – 2024, the top 1000 listed entities (by market capitalization) shall make disclosures as per the updated BRSR format, as part of their Annual Reports.

2.4.2 Listed entities shall mandatorily undertake reasonable assurance of the BRSR Core, as per the glide path specified in the following table:

Financial Year	Applicability of BRSR Core to top listed entities (by market capitalization)
2023 – 24	Top 150 listed entities
2024 – 25	Top 250 listed entities
2025 – 26	Top 500 listed entities
2026 – 27	Top 1000 listed entities

3. ESG Disclosures for value chain

3.1 Disclosures for value chain shall be made by the listed company as per BRSR Core, as part of its Annual Report. For this purpose, value chain shall encompass the top upstream and downstream partners of a listed entity, cumulatively comprising 75% of its purchases / sales (by value) respectively.

3.2 Listed entities shall report the KPIs in the BRSR Core for their value chain to the extent it is attributable to their business with that value chain partner. Such reporting may be segregated for upstream and downstream partners or can be reported on an aggregate basis.

3.3 The scope of reporting and any assumptions or estimates, if any, shall be clearly disclosed.

3.4 Applicability

3.4.1 ESG disclosures for the value chain shall be applicable to the top 250 listed entities (by market capitalization), on a comply-or-explain basis from FY 2024-25.

3.4.2 The limited assurance of the above shall be applicable on a comply-or-explain basis from FY 2025-26

4. Assurance provider

4.1 The Board of the listed entity shall ensure that the assurance provider of the BRSR Core has the necessary expertise, for undertaking reasonable assurance.

4.2 The listed entity shall ensure that there is no conflict of interest with the assurance provider appointed for assuring the BRSR Core. For instance, it shall be ensured that the assurance provider or any of its associates do not sell its products or provide any non-audit / non-assurance related service including consulting services, to the listed entity or its group entities.

STRUCTURE / FRAMEWORK OF BRSR

Before exploring the structure / framework of BRSR, it is essential to have a look on the approach adopted for developing the BRSR Core-

i) Quantifiable and outcome oriented metrics

The KPIs sought in the BRSR Core are quantifiable to the extent possible, so as to facilate comparability of the disclosures. The KPIs also incorporate metrics that are reflective of sustainable outcomes in companies. For instance, one of the metrics recommended by the Committee was ‘gross wages by gender’ which was reflective of whether a company has gender diversity practices which attract and retain women in its workforce.

ii) Relevance of the attributes / areas in the BRSR Core

The BRSR Core contains factors that are relevant to both the manufacturing and service factors and are relevant in the Indian context. Therefore, under the 'S' parameters, attributes such as job creation, and inclusive development have been considered. The 'G' parameter included openness / concentration of business including related party transactions.

iii) Comparability across jurisdictions

The KPIs in the BRSR Core, contain a number of intensity ratios, such as intensity of Green-House Gas (GHG) emissions, water consumption, waste generation etc., so as to enable comparability, irrespective of the size of the company.

These intensity rations are based on both revenue and volume. Considering the fact that these ratios are also used by global investors and global ERPs, it is felt appropriate that intensity ratios based on economic value adjusted for Purchasing Power Parity (PPP) should be computed in addition to the norm intensity ratios, for global comparability to be fairer to low cost / developing economies. It is proposed that in the first phase, country level PPP may be used and over time, sector specific PPP may be developed.

The reporting framework is divided into three sections

Section A: General disclosures

The section contains details of the listed entity; products/services; operations; employees; holding, subsidiary and associate companies (including joint ventures); CSR; transparency and disclosure compliances.

Under this basic details of company shall be disclosed such as, name, CIN, registered office, contact details, paid-up capital, name and contact details of the responsible person for BRSR, details about operation, production, turnover, details of employee, gender ratio of employee, representation of women at the top management and turnover ratio of the employees etc.

Section B: Management and process disclosures

This section is aimed at helping businesses demonstrate the structures, policies and processes put in place towards adopting the NGRBC Principles and Core Elements.

Section C: Principle-wise performance disclosures

This section is aimed at helping entities demonstrate their performance in integrating the Principles and Core Elements with key processes and decisions. The information sought is categorized as "Essential" and "Leadership". While the essential indicators are expected to be disclosed by every entity that is mandated to file this report, the leadership indicators may be voluntarily disclosed by entities which aspire to progress to a higher level in their quest to be socially, environmentally and ethically responsible.

Nine principles of the NGRBC

The NGRBC are designed to be used by all businesses irrespective of their ownership, size, sector, structure or location. It is expected that all businesses investing or operating in India, including foreign multinational corporations (MNCs) will follow these guidelines. Correspondingly, the NGRBC also provide a useful framework for guiding Indian MNCs in their overseas operations, in addition to aligning with applicable local national standards and norms governing responsible business conduct.

Furthermore, the NGRBC reiterate that need to encourage businesses to ensure that not only do they follow these guidelines in business contexts directly within their control or influence, but that they also encourage and support their suppliers, vendors, distributors, partners and other collaborators to follow them.

The nine principles of NGRBC are as under:

Principle 1

Businesses should conduct and govern themselves with integrity, and in a manner that is ethical, transparent and accountable.

- Detailed description of number of trainings and awareness programmes on any of the principles held for the Board, KMP, employees and workers
- Details of fine/penalties /punishments/awards/compounding fees/settlement paid
- Disclosure on number of complaints received
- Details relating to anti- corruption

Principle 2

Businesses should provide goods and services in a manner that is sustainable and safe.

- Disclose percentage of Research and development and capital expenditure investments
- Disclose procedure on Sustainable sourcing
- Details of Life Cycle Assessment
- Disclosure on Extended producer Responsibility

Principle 3

Businesses should respect and promote the well-being of all employees, including those in their value chains.

- Detailed measure taken by entity for their employee's
- Details of retirement benefits

Principle 4

Businesses should respect the interests of and be responsive to all its stakeholders.

- Disclosure about the processes for identifying key stakeholder group

Principle 5

Businesses should respect and promote human rights

- Details of training
- Details of minimum wages paid

Principle 6

Businesses should respect and make efforts to protect and restore the environment.

- Specific disclosures relating to water withdrawal
- Disclosure regarding whether the entity has implemented a mechanism for zero liquid discharge
- Details of air emission or greenhouse gases
- Disclose the details of environmental impact assessment project

Principle 7

Businesses, when engaging in influencing public and regulatory policy, should do so in a manner that is responsible and transparent.

- Disclose details on trade and industry chambers of the entity

- Disclose details of corrective actions taken or underway on any issues related to anti -competitive conduct by the entity

Principle 8

Businesses should promote inclusive growth and equitable development.

- Disclose details of Social Impact Assessment (SIA) of projects undertaken by the entity
- Disclose details of preferential procurement policy

Principle 9

Businesses should engage with and provide value to their consumers in a responsible manner.

- Number of consumer complaints received during the current year and previous year
- Advertising, cyber security and unfair trade practises along with the details regarding mechanism
- Disclosure regarding framework /policy on cyber security and risks related to data privacy along with providing weblink of the policy.

A summary of the ESG metrics and other key disclosures required by the BRSR is as follows:

SUBJECT MATTER	***KEY DISCLOSURES****
General	***Key quantitative and/ or qualitative KPIs*:** ● Principal business activities and products/ services. ● Markets served, plants and offices (national and international), and types of customers. ● Contribution of exports. ● R&D and capex investments in technologies that improve ESG impacts. ● Trade and industry affiliations. ***Other key disclosures*:** ● Overview of material responsible business conduct issues. ● Specific ESG commitments and performance. ● External assessment/ evaluation of ESG policies.
Environmental	***Key quantitative and/ or qualitative KPIs*:** ● Material environmental impacts, risks and concerns. ● Energy consumption and intensity. ● Water consumption, intensity, withdrawal and discharge. ● GHG emissions (scope 1 to 3) and projects for emissions reduction. ● Plastics and waste management (including through 3Rs practices) and wastewater management. ● Sustainable input sourcing. ● Environmental impact assessments. ● Extended producer responsibility. ● Life cycle assessments.

SUBJECT MATTER	*KEY DISCLOSURES**
	• Operations in ecologically sensitive areas and biodiversity impacts. • Compliance with environmental laws. ***Other key disclosures*:** • Business continuity and disaster management plan(s).
Social	***Key quantitative and/ or qualitative KPIs:*** • Median remuneration and minimum wages. • Return to work and retention rates. • Union/ association memberships. • Occupational safety and health (OSH) matters, including risk assessments, reporting and corrective actions. • Safety incidents and corrective actions. • Human rights related risk assessments, diligence, corrective actions, grievance redressal and business process changes. • Trainings – on ESG, OSH, human rights, and skill upgradation. • Safety-linked product recalls. • Insurance, retirement, and other employee benefits. • Employee/ worker complaints and grievances, and protective mechanisms for complainants. • Rehabilitation and resettlement, and community grievances. • Social impact assessments and mitigating actions. • Customer/ consumer issues, including complaints, corrective actions, awareness, and feedback. • Product labelling. • Sourcing from local/ small producers and marginalised/ vulnerable groups. • Beneficiaries of CSR projects. • Data privacy issues. ***Other key disclosures*:** • Framework/ policy on cyber security and data privacy risks.
Governance	***Key quantitative and/ or qualitative KPIs:*** • Anti-bribery/ corruption disciplinary sanctions involving directors and employees, and related corrective actions. • Conflicts of interest involving directors or KMPs, and related corrective actions. • Process for identifying and engagement with key stakeholders. ***Other key disclosures*:** • Anti-corruption/ bribery policies.

**Certain KPIs/ disclosures (particularly, those relating to value chain partners) are voluntary only.*

BENEFITS OF BRSR REPORTING

1. **Improved ESG Performance:** BRSR reporting helps companies to identify and monitor their ESG (Environmental, Social, and Governance) performance. This allows them to better understand their environmental impact, social responsibility, and governance practices. By having a better understanding of their performance, companies can make informed decisions about how to improve their sustainability practices. Ultimately, this can lead to a reduction in environmental impact, improved social outcomes, and better governance practices.

2. **Competitive Advantage:** By reporting on their sustainability practices, companies can differentiate themselves from their competitors. This can help attract environmentally and socially conscious investors who may prefer to invest in companies that have a positive impact on the environment and society. This can also help companies attract customers who are increasingly concerned about the sustainability practices of the companies they do business with.

3. **Compliance with Regulations:** BRSR reporting helps companies to comply with regulations such as SEBI guidelines and the National Voluntary Guidelines on Social, Environmental and Economic Responsibilities of Business. By disclosing their sustainability practices and performance, companies can demonstrate that they are following relevant regulations and guidelines. This can help them avoid potential fines or penalties and maintain a positive reputation.

4. **Improved Stakeholder Engagement:** By disclosing their ESG performance, companies can engage with stakeholders such as investors, customers, and employees on sustainability issues. This can help build trust and credibility with stakeholders and demonstrate a commitment to sustainability. Stakeholders may have a significant impact on a company's success, and engaging with them can lead to opportunities for collaboration and co-creation. This can ultimately result in a more sustainable business model.

5. **Risk Management:** BRSR reporting helps companies to identify and manage ESG-related risks. By understanding their environmental and social impact, companies can identify potential risks and take steps to mitigate them. This can help reduce the likelihood of negative impacts on the environment, society, or the company's reputation. Effective risk management can also help protect a company's financial performance and increase its resilience to unexpected events.

6. **Cost Savings:** BRSR reporting can help companies to identify areas where they can reduce costs by improving their sustainability practices. For example, by identifying ways to reduce energy consumption or waste, companies can reduce their operating costs, which can have a positive impact on their bottom line. Additionally, companies that adopt sustainable practices may be able to save on costs associated with fines and penalties for non-compliance with environmental and social regulations.

7. **Innovation:** BRSR reporting can be a powerful tool to encourage companies to innovate and develop new products and services that are more sustainable. For example, by tracking their carbon emissions and setting reduction targets, companies may identify opportunities to develop new low-carbon products or services. Similarly, by monitoring their water usage and identifying ways to reduce it, companies may be able to develop new water-efficient products or technologies.

8. **Investor Confidence:** BRSR reporting can enhance investor confidence by providing relevant information about a company's ESG performance. This information can help investors make informed decisions about which companies to invest in and which to avoid. By disclosing their sustainability practices and performance, companies can build trust with investors and attract those who prioritize ESG factors in their investment decisions.

9. **Improved Reputation:** BRSR reporting can also enhance a company's reputation by demonstrating a commitment to sustainability. A positive reputation can help attract and retain customers, employees, and other stakeholders, while a negative reputation can lead to lost business and legal or regulatory consequences. By disclosing their sustainability practices and performance, companies can demonstrate a commitment to transparency and accountability, which can help build trust and enhance their reputation.

10. **Long-Term Value Creation:** BRSR reporting can help companies create long-term value by promoting sustainable business practices. By considering the environmental and social impact of their operations, companies can identify opportunities to reduce costs, improve efficiency, and develop innovative products and services. By integrating sustainability into their business strategy, companies can create value for shareholders while also contributing to a more sustainable future. Moreover, companies that prioritize sustainability may be better equipped to navigate risks related to climate change, social inequality, and other ESG factors, which can help them create long-term value for all stakeholders.

CHALLENGES OF BRSR REPORTING

Challenges of Sustainability Reporting include –

- **Diverse views on Sustainability** – There is no one definition of sustainability. This results in the ambit of sustainability becoming very large, and it could be overwhelming for companies to collate such a lot of information and present it in the form of a report.
- **Multiple reporting standards and frameworks** – Globally there are various reporting standards and frameworks for Sustainability Reporting, such as Carbon Disclosure Project (CDP), the Climate Disclosure Standards Board (CDSB), the Global Reporting Initiative (GRI), the International Integrated Reporting Council (IIRC) and the Sustainability Accounting Standards Board (SASB). Each of these provide their own guidelines for Sustainability Reporting. This can result in challenges in reporting, basis each of these frameworks.
- **Time-consuming exercise** – Given the extensive data that is required, Sustainable Reporting could be time consuming, especially for smaller companies.
- **Lack of understanding within management** – The personnel responsible for collecting such data need to be educated and trained efficiently. Problems can arise if there is lack of proper coordination between different departments within a company. The credibility and reputation of the company depends on the accuracy of the data published.
- **No clear proof of financial return on investment** – Although studies have shown that stakeholders reward companies with sustainable practices, there is mixed empirical evidence, partly because data continues to be a challenge.

CONCLUSION

Unlike financial reporting where companies have robust system in place to capture and report necessary data, reporting around ESG parameters is still at a growing stage. Therefore, there is an urgent need to invest in necessary mechanism which could help in three aspects:

1. Enable capturing the required data for reporting ESG matters
2. Selection of sustainable framework and related metrics that can be adopted by companies to facilitate reporting
3. Level of assurance to be provided on such reporting.

BRSR reporting is a first step towards achieving these milestones.

India is gradually moving towards developing regulations around ESG. With the introduction of the BRSR framework, SEBI has joined the group of countries and international organization to have released comprehensive sustainability reporting frameworks. Though the reporting mandate is presently restricted to the top 1,000 listed companies by market capitalization, the experience with BRR only indicates that a wider range of companies would soon be covered under the BRSR framework.

Thus, with the BRSR becoming mandatory from the financial year FY2022-23 and a number of stakeholders such as investors and ESG rating providers placing reliance on disclosures made in the BRSR, assurance becomes key for enhancing credibility of disclosure and investor confidence.

LESSON ROUND-UP

- Sustainability Reporting or Non-Financial Reporting is the process of communicating the social, environmental and governance effects of a company's operations to the stakeholders at large.
- ESG reporting in India started in 2009 with the Ministry of Corporate Affairs (MCA) issuing the Voluntary Guidelines on Corporate Social Responsibility as the first step towards mainstreaming the concept of business responsibility.
- The Integrated Reporting Framework was developed in 2013. The framework is based on integrated thinking. Integrated thinking is the process that an organization follows while creating an Integrated Report.
- The IR Framework is principles-based. The intent of the principles-based approach is to strike an appropriate balance between flexibility and prescription that recognizes the wide variation in individual circumstances of different organizations while enabling a sufficient degree of comparability across organizations to meet relevant information needs.
- The GRI Standards are a modular system of interconnected standards. They allow organizations to publicly report the impacts of their activities in a structured way that is transparent to stakeholders and other interested parties.
- The GRI Sector Standards intend to increase the quality, completeness, and consistency of reporting by organizations.
- SEBI has played a key role in promoting sustainability reporting in India by issuing the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.
- India is gradually moving towards developing regulations around ESG. With the introduction of the BRSR framework, SEBI has joined the group of countries and international organization to have released comprehensive sustainability reporting frameworks.

GLOSSARY

Business model: An organization's system of transforming inputs through its business activities into outputs and outcomes that aims to fulfill the organization's strategic purposes and create value over the short, medium and long term.

Capitals: Stocks of value on which all organizations depend for their success as inputs to their business model, and which are increased, decreased or transformed through the organization's business activities and outputs. The capitals are categorized in the <IR> Framework as financial, manufactured, intellectual, human, social and relationship, and natural.

Content Elements: The categories of information required to be included in an integrated report; the Content Elements, which are fundamentally linked to each other and are not mutually exclusive, are stated in the form of questions to be answered in a way that makes the relationships between them apparent.

Guiding Principles: The principles that underpin the preparation and presentation of an integrated report, informing the content of the report and how information is presented.

Inputs: The capitals (resources and relationships) that the organization draws upon for its business activities.

Integrated report: A concise communication about how an organization's strategy, governance, performance and prospects, in the context of its external environment, lead to the creation, preservation or erosion of value in the short, medium and long term.

Integrated reporting: A process founded on integrated thinking that results in a periodic integrated report by an organization about value creation, preservation or erosion over time and related communications regarding aspects of value creation, preservation or erosion.

Integrated thinking: The active consideration by an organization of the relationships between its various operating and functional units and the capitals that the organization uses or affects. Integrated thinking leads to integrated decision-making and actions that consider the creation, preservation or erosion of value over the short, medium and long term.

Material/materiality: A matter is material if it could substantively affect the organization's ability to create value in the short, medium or long term.

Outcomes: The internal and external consequences (positive and negative) for the capitals as a result of an organization's business activities and outputs.

Outputs: An organization's products and services, and any by-products and waste.

Performance: An organization's achievements relative to its strategic objectives, and its outcomes in terms of its effects on the capitals.

Providers of financial capital: Equity and debt holders and others who provide financial capital, both existing and potential, including lenders and other creditors. This includes the ultimate beneficiaries of investments, collective asset owners, and asset or fund managers.

Reporting boundary: The boundary within which matters are considered relevant for inclusion in an organization's integrated report.

Stakeholders: Those groups or individuals that can reasonably be expected to be significantly affected by an organization's business activities, outputs or outcomes, or whose actions can reasonably be expected to significantly affect the ability of the organization to create value over time. Stakeholders may include providers of financial capital, employees, customers, suppliers, business partners, local communities, NGOs, environmental groups, legislators, regulators and policy-makers.

Strategy: Strategic objectives together with the strategies to achieve them.

Charged with governance: The person(s) or organization(s) (e.g. the board of directors or a corporate trustee) with responsibility for overseeing the strategic direction of an organization and its obligations with respect to accountability and stewardship. For some organizations and jurisdictions, those charged with governance may include executive management.

Value creation, preservation or erosion: The process that results in increases, decreases or transformations of the capitals caused by the organization's business activities and outputs.

TEST YOURSELF

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

1. Explain the origin and development of sustainability reporting in India.
2. With the growing ESG concerns, mere financial reporting is not sufficient. Do you agree? Write a note on sustainability reporting frameworks in support of your answer.
3. Explain the structure of IR Framework
4. Is BRSR better than the BRR? Explain the development of BRSR, its applicability and perceived benefits in the coming times.
5. Write a note of GRI framework of reporting.

LIST OF FURTHER READINGS

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WARNING

Regulation 27 of the Company Secretaries Regulations, 1982

In the event of any misconduct by a registered student or a candidate enrolled for any examination conducted by the Institute, the Council or any Committee formed by the Council in this regard, may suo-moto or on receipt of a complaint, if it is satisfied that, the misconduct is proved after such investigation as it may deem necessary and after giving such student or candidate an opportunity of being heard, suspend or debar him from appearing in any one or more examinations, cancel his examination result, or registration as a student, or debar him from re-registration as a student, or take such action as may be deemed fit.

It may be noted that according to regulation 2(ia) of the Company Secretaries Regulations, 1982, 'misconduct' in relation to a registered student or a candidate enrolled for any examination conducted by the Institute means behaviour in disorderly manner in relation to the Institute or in or around an examination centre or premises, or breach of any provision of the Act, rule, regulation, notification, condition, guideline, direction, advisory, circular of the Institute, or adoption of malpractices with regard to postal or oral tuition or resorting to or attempting to resort to unfair means in connection with writing of any examination conducted by the Institute, or tampering with the Institute's record or database, writing or sharing information about the Institute on public forums, social networking or any print or electronic media which is defamatory or any other act which may harm, damage, hamper or challenge the secrecy, decorum or sanctity of examination or training or any policy of the Institute.

PROFESSIONAL PROGRAMME

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) – PRINCIPLES & PRACTICE

GROUP 1 • PAPER 1

(*This test paper is for practice and self-study only and not to be sent to the Institute*)

Time allowed: 3 hours *Maximum Mark: 100*

Answer all Questions

PART I: GOVERNANCE AND SUSTAINABILITY (65 MARKS)

Question No. 1

Board independence is crucial for unbiased and smooth functioning of the company, especially when it comes to deciding on strategic matters like mergers and acquisitions, setting up of a new business entity within the country or in foreign lands, corporate finance, keeping a vigil on financial transactions of mammoth size to ensure that there are no irregularities or scams, ensure safeguarding of the interests of all the stakeholders especially minority shareholders etc.

Thus, board independence is the essence of corporate governance. In ensuring board's independence and its free and fair approach, role of independent directors is noteworthy. Excel Limited, a publicly listed company engaged in the business of oil exploration, appointed Mr. Ramesh as its independent director, who is a person of integrity and have relevant expertise and experience in oil sector. Previously he has worked with renowned oil companies. In due course it came to light that Mr. Ramesh is step brother of the promoter of the subsidiary company of Excel Limited, i.e., Zenith Limited and Mr. Ramesh is the Chairman of the Audit Committee and ESG Committee of Excel Limited.

With reference to the board composition of Excel Limited, the Chairman of the company is not an Independent Director and the board has total 8 Directors out of which 4 are Independent Directors including Mr. Ramesh. The meeting of Audit Committee of Excel Limited was held on May 4, 2022, which considered the audited financial statements. Mr. Ramesh was the only Independent Director attended the meeting.

It was also found that Mr. Ramesh is also on the Board of Swan Limited which is an unlisted material subsidiary having registered office at Mumbai.

Examining the case in the light of relevant provisions covered under the Companies Act, 2013 and SEBI (LODR) Regulations, 2015, answer the following questions:

a) In light of the above, as a Company Secretary what steps are required to be taken with respect of Board Composition and Board Committees?

(5 Marks)

b) Comment on the validity of Audit Committee Meeting.

(5 Marks)

c) In light of the above case, elucidate the liabilities of the Independent Directors.

(5 Marks)

d) In the above context, explain the provisions of LODR relating to directors *inter se* relationship.

(5 Marks)

(Total= 5+5+5+5= 20 Marks)

Question No. 2

Super Communications Limited is a telecom company and a family business wherein promoters holding is 55%. Some of the vital aspects pertaining to corporate governance of the company are as under:

i) There is a separation of role of Chairman and Managing Director / CEO.

ii) The company has a robust succession planning framework in place for the Board and top critical positions including its senior management. The Board of Directors, HR & Nomination Committee and Apex Talent Council are entrusted with overseeing and monitoring talent management and succession planning initiatives at the company.

iii) The company has a Business Continuity Plan and Disaster Management Plan in place. It has proactively implemented business continuity plan and effectively enabled work from home facility for all the employees by providing necessary IT infrastructure and network security.

iv) In order to drive its long-term sustainability vision, the company has ESG Committee which provides strategic guidance and decision making on ESG and is responsible for review and approval of ESG strategy, goals and targets.

v) With reference to composition of board of directors, 50% of directors are independent directors.

vi) Company's stakeholder engagement framework outlines an approach to engage and work with its stakeholders and is applicable to all its operating entities and functions across the corporate and regional levels.

vii) The company has in place stringent procedures and safeguards to avoid any conflicts of interest involving members of the Board and other employees. The company's guidelines related to Conflict of Interest focus on avoiding any conflict of interest, both actual and apparent, and the mechanism to report any such situations that may give rise to a potential conflict.

ix) Super Communication's policy on Related Party Transactions intends to ensure that proper reporting, approval and disclosure processes are in place for all transactions between the company and related parties. Further the policy, disallows the concerned or interested director participate in any discussion or approve contracts or arrangements with related parties, to avoid potential conflicts of interest.

In light of the above mentioned facts, answer the following questions

a) In your view, how does the separation in the role of the Chairman and Managing Director / CEO and substantial strength of Independent Directors may contribute towards achieving efficiency in business operations of Super Communications Limited?

(3 Marks)

b) How succession planning is facilitated in Super Communications Limited and what initiatives the management of the company may take to further strengthen the succession planning?

(4 Marks)

c) The company has in place 'Business Continuity Plan', 'ESG Committee', 'Management of Conflict of Interest' and 'Policy on Related Party Transactions', thereby ensuring a holistic approach towards corporate governance. In view of this, briefly state the advantages the company may derive from the aforesaid measures.

(8 Marks)

(Total 3+4+8= 15 Marks)

Question No. 3

Wealth Bank a publicly listed bank recognising socio-environmental dimension as one of the strategic element of business have embraced the Environmental and Social Management System (ESMS). An Environmental and Social Management System (ESMS) helps an organisation to integrate plans and standards into its core operations in order to anticipate environmental and social risks posed by its business activities and to avoid, minimize, and compensate for such impact. Lenders being channels of credit flow play a crucial role in promoting environmentally and socially sustainable projects.

However, on perusing the ESMS report of the bank the following facts came to light.

i) The position of "E&S Officer" *(a senior officer of Bank to be responsible for administration and oversight of the E&S Management System),* have been lying vacant for past 3 years.

ii) As cost saving initiative the bank has not engaged any external agency as "E&S Consultant"*(external agencies engaged by bank to undertake E&S categorisation and for undertaking due diligence of high risk business activities financed by the bank).*

iii) The bank has advanced loans to casino, arms and ammunition enterprises.

iv) The bank has given loan to Elite Limited, Advanced loans to tobacco producers.

v) The bank does not have any External Communications Mechanism (ECM) is in place for public to submit their queries or concerns pertaining to Bank's Environmental & Social Policy and/ or projects financed by Bank.

vi) A loan of Rs.20 crore was advanced to Pinnacle Limited, a real estate company which provided in its loan application to the bank that the proceeds of the loan will be utilised for construction of green building thereby facilitating energy efficiency, but on investigation it was observed that the company has partially utilised the amount for construction of green building.

In light of the above mentioned case, answer the following questions:

a) How the concept of Environmental and Social Management System (ESMS) facilitate the focus on ESG matters by the Boards of the Companies?

(8 Marks)

b) Wealth Bank despite having ESMS in place, failed to comply with the requirements specified under it. As a Company Secretary, explain the infringements made by the management of the bank under various elements of ESMS and as an advisor to the Board of Directors, what measures you would suggest to strengthen ESMS compliance and uphold the tenets of best corporate governance practices.

(7 Marks)

(Total 8+7 = 15 Marks)

Attempt either Q.No.4 or Q.No.4A

Question No. 4

As William Clay Ford Jr. said that "*Creating a strong business and building a better world are not conflicting* *goals – they are both essential ingredients for long-term success*", in light of this, explain how CSR Impact Assessment is going to change the CSR landscape in India.

(15 Marks)

OR (Alternate Question to Q.No.4)

Question No. 4A

Data governance has become an indispensable element for data protection and its appropriate usage by its concerned stakeholders, in view of this, elucidate the principles of data governance.

(15 Marks)

PART II: RISK MANAGEMENT

Attempt either Q.No.5 or Q.No.5A

Question No.5

Best Bank was once the country's fifth-largest private lender by market capitalization. Best Bank had been founded by Anand Kapoor and Amandeep Kapoor in 2015. The bank was ranked number 1 bank in the Business Today-KPMG Best Banks Annual Survey 2019. Best Bank was the first institution globally to receive funding through IFC's Managed Co-Lending Portfolio Programme and the first Indian bank to raise loan under IFC's A/B loan facility.

The bank's loan book on March 31, 2020, was Rs 55,633 crore, and its deposits were Rs 74,192 crore. Since then, the loan book has grown to nearly four times as much, at Rs 2.25 trillion as on September 30, 2023. While deposit growth failed to keep pace and increased at less than three times to Rs 2.10 trillion. The bank's asset quality also worsened and it came under regulator RBI's scanner. Best bank was lending aggressively disregarding the risk limits and also under-reporting the bad loans. They were lending to corporates that were already in very risk businesses and facing some challenges in their business like the Amar Ambani led Pinnacle group, DHFL and IL&FS.

All this happened in Anand Kapoor's (Founder of Best Bank) tenure. The exposure of loans to such bad performing companies was huge in Best Bank's case, and to add up they were hiding the NPAs (Non-performing assets) or misreporting the same. After the above fiasco, Ravinder Gill took charge of Best Bank but struggled to revive as deposits kept depleting and he wasn't able to raise enough capital given the loss of confidence in the market. The tipping point came when one of the bank's independent directors Mohan Agarwal, resigned from the board in January 2024 citing governance issues.

In light of the above case, answer the following questions:

a) Elucidate the possible reasons for debacle of Best Bank.

(12 Marks)

b) What steps the management of Best Bank may take to avert such fiascos in future?

(8 Marks)

(Total 12+8 = 20 Marks)

OR (Alternate Question to Q.No.5)

Question No. 5A

Matrix Limited had a requirement to build a strong platform with the best-of-breed agile services which can support their digital transformation journey. They were facing increased complexity due to heterogeneous IT security stack and high AMC due to multiple vendors. The company went for digital transformation to become Cloud Native with NextGen Security Solutions that comprised of-

i) Built a security framework

ii) Implemented network, data and endpoint security along with IAM (Identify and Access Management)

iii) Installed NexGen firewalls with hyperscale capabilities to reduce complexity, management efforts and operational cost.

The outcome of the aforesaid cyber security initiatives were-

1. Reduced 99% of P1 outages**.** A priority 1 or P1 outage is caused by many factors. Some examples include a thunderstorm cuts out the power, a server experiences a hardware failure, or a third party's infrastructure experiences an issue.
2. Enhanced the security posture and reduced overall network risk.
3. Reduced the risk from cyber threats.
4. Improved scalability and reduced redundancy.
5. Optimized operation efforts by implementing public cloud solution.

1. Based on the above contents, carry out a SWOT Analysis of digital transformation embraced by Matrix Limited.

(10 Marks)

2. Explain the cybersecurity security risk management process.

(10 Marks)

(Total= 10 + 10 = 20 Marks)

PART III : ENVIRONMENT & SUSTAINABILITY REPORTING

Question No. 6

Giant Power Limited formed in 2005 is a publicly listed company and is engaged in the business of power generation from both coal and water, i.e., thermal and hydel respectively. In order to decipher whether the company is adhering to the Principles of Business Responsibility and Sustainable Reporting (BRSR) or not, the Business Responsibility and Sustainability Report of Giant Power Limited for the FY2021-22 was explored and following observations were made:

1. The company is guided by the principles of GCoC (Giant Code of Conduct) and GBEM(Giant Business Excellence Model) and so it mandates training of its workforce to make them conversant with Giant Power's Code of Conduct so that their conduct is in accordance with the same. In view of this, regular training sessions was required but on perusing the training programmes conducted by the company during the mentioned financial year, the following facts were observed:

Segment	Total number of training and awareness programmes held	Topics / principles covered under the training and its impact	% age of persons in respective category covered by the awareness programmes
Board of Directors	2	Business Ethics and Values	100

Key Managerial Personnel (KMP)	5	ESG related matters	50
Employees other than Board of Directors and KMPs	25	Safety related measures in the operational areas of the organisation	45
Workers	Nil	Nil	Nil

2. It was observed that during the aforesaid financial year workers working in plants met with some accidents, as new workers were not aware of various fire and safety measures, first aid and other related precautions that needs to be taken into consideration while working in the plants.
3. Two cases were pending against the company for unfair trade practices, irresponsible advertising and/ or anti-competitive behaviour. Additionally cases of corruption were pending against 2 Key Managerial Personnel.
4. On going through the details of percentage of R&D and capital expenditure (capex) investments in specific technologies to improve the environmental and social impacts of product and processes to total R&D and capex investments made by the entity, respectively is as under:

Expenditure Heads	FY 2021-22 (%)	FY 2020-21 (%)	Details of improvements in environmental and social impacts
R&D	40	70	Expenditure incurred on promoting green initiatives in generation of power by reducing pollution of thermal power plants was reduced.
Capex	25	45	Capex represents expenditure on clean and green business

5. During the year company made negligible spending on well-being of employees.

i) In light of the mentioned facts of the case, identify which principles covered under Business Responsibility and Sustainability Reporting (principle wise performance disclosure) have been infringed by Giant Power Limited?

(10 Marks)

ii) What measures management of a company may take to make its business more sustainable and BRSR compliant?

(5 Marks)

(Total = 10+5 =15 Marks)