

BUSINESS RESPONSIBILITY AND SUSTAINABILITY REPORTING - AN EFFORT TO ACHIEVE SUSTAINABILITY

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ABSTRACT

This article deals with the new reporting system introduced by the Securities and Exchange Board of India (SEBI), i.e., Business Responsibility and sustainable report. This new reporting system has several factors added to it. Reporting within the BRSR is designed to increase the transparency of corporate information and help market participants explore sustainability-related risks and opportunities. Disclosures under the BRSR framework are intended to be more robust and broader than other ESG reporting frameworks, as the BRSR requires robust information on social metrics and employee, community, and consumer data. BRSR includes the idea of Sustainability to understand how the firm's activities affect the environment in both the long term and short term, essentially to analyze corporate sustainability practices. BRSR, an evolved version of the Business Responsibility Report (BRR), is an Environmental, Social, and Governance (ESG) framework benchmarked to global frameworks such as GRI, TCFD, SASB, etc. SEBI has mandated that India's Top 1000 listed companies (by Market Capital) submit the comprehensive BRSR for FY 2022-23. The new reporting system is introduced to attain India's COP26 Goals.

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INTRODUCTION

With increasing climate consciousness, Sustainability has seen an increasing relevance. Adapting to climate-friendly technologies has been the objective of many countries, and several international agencies like the UN and ILO are pushing to meet Sustainable development goals by the year 2030. Several countries have also started bringing in several reforms to their domestic laws to attain their climate goals. Countries like India have been at the forefront of this effort. The government has put forward several policies to meet the COP26 goals that India adopted. One of the most important initiatives is the 'Business responsibility and sustainability report' that companies must release annually.

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The idea of having an integrated reporting system came in 2009, with MCA issuing the Voluntary National Guidelines on CSR to mainstream the idea of corporate responsibility. The UN Human rights commission adopted the UN Guiding Principles on Business and Human rights in 2011, which India endorsed, which led India to issue the National Voluntary Guidelines on Social, Environmental, and Economic Responsibilities of Business. The guideline was developed with extensive consultation with essential stakeholders and contained a Business Responsibility Reporting Framework. In 2012, SEBI notified the top 100 companies to release the BRR report annually, which was extended to 500 companies. The updated NVG was released in 2019, extending the BRR reporting to 1000 companies. The change saw in the year 2021 when SEBI issued a circular containing a new reporting system that included Sustainability as an essential component of the report. The new reporting format mandates the release of ESG policies of the top 1000 companies. Unlike other compliances and reports (like CARO, which targets specific stakeholders), the BRSR targets an extensive spectrum of stakeholders. It is structured to uncover the non-financial risk indicators – for multiple stakeholders such as – investors, shareholders, bankers, employees, community, regulators, customers, and suppliers.

The variety of raw data required to submit a BRSR report makes this compliance unique. The BRSR framework is significantly data-heavy – with 120+ parameters to be reported across nine core principles. Each of these nine principles focuses on a specific reporting area.

THE PRINCIPLES ARE -

- 1) Businesses should behave and conduct themselves with integrity and in a manner that is ethical, transparent, and accountable.
- 2) Businesses must supply goods and services that are sustainable and safe.
- 3) Businesses should respect and promote the well-being of all employees, including employees in their value chains.
- 4) Businesses should respect their interests and respond to each stakeholder when necessary.
- 5) Businesses should respect and promote human rights.
- 6) Businesses should respect and strive to protect and restore the environment.

7) When businesses influence public and regulatory policy, they should do so accountable and transparently.

8) Businesses should promote equitable development and inclusive growth

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

The new reporting is an effort by SEBI to enhance disclosure of the companies' ESG (Environment, Social, and Governance) responsibility. The report's main objective is to ensure complete corporate transparency on environmental and societal practices. The report is released annually by the top 1000 listed companies by market capitalization. In 2021, SEBI issued circular containing details of the new detailed reporting requirement, making the report mandatory from 2022. The new reporting format replaces the BRR (Business responsibility report) system. The new BRSR ensures proper business practices and improves the public's involvement in protecting the environment. Increasing the government's efforts to ensure ethical business practices which is not ecologically endangering the livelihood of the people and the animals led the government to make the reporting system mandatory from the year 2022

SEBI vide Circular no. CIR/CFD/CMD/10/2015, dated November 04, 2015, has prescribed the format for the Business Responsibility Report (BRR) in respect of reporting on ESG (Environment, Social, and Governance) parameters by listed entities. In terms of the amendment to regulation 34 (2) (f) of LODR Regulations vide Gazette notification no. SEBI/LAD-NRO/GN/2021/22 dated May 05, 2021, it has now been decided to introduce new reporting requirements on ESG parameters called the Business Responsibility and Sustainability Report (BRSR). The BRSR is accompanied by a guidance note to enable the companies to interpret the scope of disclosures. The format of the BRSR and the guidance note are detailed in Annexure I and Annexure II, respectively.

The BRSR seeks disclosures from listed entities on their performance against the nine principles of the 'National Guidelines on Responsible Business Conduct (NGBRCs), and reporting under each principle is divided into essential and leading indicators. The essential indicators must be reported on a mandatory basis, while the reporting of leading indicators is voluntary. Listed entities should endeavor to report the leading indicators also.

The BRSR is intended to have 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 social and environmental impacts. 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 the such framework to the disclosures sought under the BRSR.

APPLICABILITY

In terms of the amendment described above, with effect from the financial year 2022-2023, filing of BRSR shall be mandatory for the top 1000 listed companies (by market capitalization) and shall replace the existing BRR. Filing of BRSR is voluntary for the financial year 2021-22. The Stock Exchanges are advised to bring the provisions of this circular to the notice of all listed entities and disseminate the same on their websites. The Circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992, read with Regulation 101 of the LODR.

Business responsibility and sustainability reporting by listed entities - 10.05.2021 - SEBI SMD: MANU/SSMD/0016/2021. The Indian Institute of Corporate Affairs (IICA) formulated BRSR based on a study conducted in collaboration with the United Nations Children's Fund (UNICEF) in 2018² (IICA-UNICEF study). The study concluded that though there was a completeness in information disclosure in the SEBI-BRR framework, the transparency and precision of the information provided by companies were weak. This led the government and other stakeholders to bring about a new aspect to the BRR report, including the aspect of Sustainability. To bridge the gap, SEBI brought the new reporting system replacing the BRR system

the new changes include the following -

- More quantitative disclosure

One of the significant purposes of the new reporting system is to enhance the existing reporting into a broader aspect, essentially increasing the quantitative disclosure by the companies. This provides holistic and granular level information

- Wider scope

The report includes a guidance note which interprets and defines the scope of each question/KPI to aid companies in filling out the BRSR questionnaire

- Essential and leadership indicators

The questions have been divided into two categories for mandatory and voluntary disclosures. However, per the MCA committee report, for the next cycle of review, questions are under the category to track the progress of disclosures and transition towards a comprehensive reporting format.

- Incorporation of value chain partners

The IICA-UNICEF study revealed that information related to supply chains was among the weakest in BRR disclosures. Therefore, in the BRSR update, several questions seek disclosures on a company's value chain and its stakeholders.

- BRSR Lite*

The Committee Report allows smaller unlisted companies below a certain threshold (currently not defined by SEBI) to adopt a lite version of the format voluntarily to make it easier for them to begin reporting on sustainability-related issues

- MCA21 portal*

As per the Committee Report, BRSR will be integrated with reporting under the Companies Act, 2013, and BRSR will be in the form of an annual report as well as a disclosure on the MCA21 portal in XBRL format.

- Business Responsibility Sustainability Index

The Committee Report also envisions the development of a Business Responsibility Sustainability Index to rate the responsible business conduct of organizations.

- Sustainable Development Goals (SDGs) mapping

The Committee Report explores linkages between the NGRBC principles and the SDGs. BRSR is aligned with the SDGs so that businesses can demonstrate their performance on SDG targets

Structure of the Report

the reporting system is divided into three sections. This includes

- Section A

Section A consist of General disclosures. This includes s details of the listed entity, operations, employees, holding, subsidiary, and associate companies (including joint ventures), CSR, transparency and disclosure compliances, and products/services.

- Section B

It contains questions related to policy and governance, leadership oversight, and management processes

- Section C

This includes Principle wise performance disclosure. This requires the companies to report their KPIs according to the nine fundamental principles, divided into two categories. 1) Essential indicators (mandatory): this includes the release of their data on training programs conducted, environmental data on energy, emissions, water, waste, social and impact generated by the companies

2) Leadership Indicator (Voluntary) - Companies must follow these indicators to better access and understand their environmental practices. The indicators include life cycle assessments (LCAs), details on conflict management policy, additional data on biodiversity, the breakup of energy consumption, Scope 3 emissions, and supply chain disclosures.

ESG reporting is gaining momentum in India. SEBI is taking the lead and setting policy and framework norms for ESG rating agencies and expanding ESG coverage to more entities (some mutual funds, too!). In the next ten years, as awareness grows about measuring and reporting non-financial risks, companies that adopt ESG late will be penalized. While adopting BRSR is a challenge for many companies, it is a step in the right direction for Indian companies to integrate into the global business environment.