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SEBI's new ESG guidelines - An uphill task, but achievable

Although SEBI's new norms for listed companies to report their ESG (environmental, social and governance) performance may be exacting, but are necessary to prevent 'greenwashing'

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The new report norms cover pollution, employee wellbeing, non-concentration of suppliers.

By External Contributors

For long, the world has focused on economic development with no regard to the environment.

Thanks to environmental activism, there has been an increasing awareness that individuals as well as businesses must act more responsibly in their consumption of resources and reduce their carbon footprint.

Unbridled capitalism, with exploitative and opportunistic practices, has led to lopsided and unbalanced development, widening the gap between the rich and the poor.

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People, governments and policy makers today are painfully aware of the situation, and are pushing for more inclusive development.

Moreover, instances of frauds and governance failures in too-big-to-fail entities have brought home to investors the fact that their investments will earn sustainable returns only if the companies adopt good governance practices.

This change in mindset has led to the concept of ESG investing, with funds that focus only on those businesses that follow sound environmental, social and governance practices.

Globally, assets under management (AUM) of the ESG investors have soared in recent years to a few trillion dollars.

Businesses, on the other hand, have been trying to get their ESG act together.

It is in this context that ESG reporting has become mainstream, with regulators across the world coming up with reporting frameworks for ESG.

In India too, there has been a push from the government towards disclosing ESG parameters right from 2011, when Ministry of Corporate Affairs (MCA) issued its National Voluntary Guidelines. This was followed by SEBI's Business Responsibility Report (BRR) norms, initially for the top 100 listed entities by market capitalization, and later expanded to the top 500, and then to the top 1000 by 2019.

The efforts got a further boost when MCA unveiled its National Guidelines on Responsible Business Conduct in 2019, aligning with the UN's Sustainable Development Goals (SDGs). These were further fleshed out and adopted by SEBI in the form of Business Responsibility and Sustainability Reporting (BRSR) norms of 2021.

SEBI mandated reporting under these rules from FY 2022-23 onwards, but made it voluntary for FY 2021-22. Still, over 175 companies made voluntary disclosures in FY 2021-22.

ESG reporting helps businesses demonstrate their level of ESG maturity to investors.

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But to ensure accountability in respect of the matters disclosed, and to guard against "creative" reporting and "greenwashing" by those chasing the trillions of dollars in ESG investors' kitty, some form of assurance and oversight is necessary.

Just as there is reasonable assurance for financial reporting in the form of independent audits, it is reasonable that there should be reasonable assurance with respect to ESG disclosures and reporting.

In this context, SEBI floated a consultation paper in February 2023, which included a proposal mandating reasonable assurance for select key aspects of BRSR – known as BRSR core.

Moreover, to guard against the practice of companies showing themselves green, but pushing their not-so-ESG-compliant practices to their value chain partners, SEBI also proposed ESG disclosures for the value chain.

After considering stakeholders' comments, SEBI issued a circular in July 2023, specifying the mandate on ESG disclosures and assurance.

With this, the Top 1000 listed entities have to make BRSR disclosures that are highly detailed, with the format itself running into 40 pages.

The top 150 entities are mandated to make their disclosures on BRSR Core from FY 2023-24, and this will gradually be extended to the top 1000 by FY 2026-27.

BRSR Core refers to nine specific aspects of BRSR, including the companies' green-house gas footprint -- including their total scope 1 and scope 2 emissions; their water footprint -- with details on both water consumption and water discharge; their energy footprint; details on waste management under embracing circularity; details on measures towards employees' wellbeing and safety; gender diversity as shown by POSH complaints and wages paid to female employees; inclusive development as measured by job creation in smaller towns and input material sourced from MSMEs; fairness in engaging with customers and suppliers – with details on data breach and accounts payable; and openness of the business -- as measured by the concentration of the business with trading houses and related parties as well as loans, advances and investments with related parties.

ESG disclosures for value chain are applicable for the top 250 entities from FY 2024-25 on a comply-or-explain basis, with "limited assurance" for this from FY 2025-26.

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As far as assurance providers are concerned, SEBI mandates that they should have the necessary expertise and no conflict of interest.

Complying with the circular is surely a mammoth task, but is necessary, given India's commitment to achieve the UN's SDGs.

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