Vol. 6 | January 2024

॥ सुखिनोभवंतु ॥

(A Monthly Newsletter of Sustainability Standards Board)

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
तमसो मा ज्योतिर्गमय

The Institute of Cost Accountants of India

(Statutory body under an Act of Parliament)

www.icmai.in

Behind every successful business decision, there is always a CMA

CONTENTS

CHAIRMAN'S MESSAGE

As we come together to celebrate the joyous occasion of 75th Republic Day of our Nation, I extend my warmest greetings to each one of you. On this significant occasion, let us reflect upon the values that our nation holds dear and the responsibility we bear towards fostering a sustainable and equitable future.

During G20 Presidency in 2023, India has made extraordinary achievements by rejuvenating the spirit of 'Vasudhaiva Kutumbakam', 'One Earth, One Family, One Future' and accelerating the progress on the Sustainable Development Goals (SDGs), taking a cross-cutting, action-oriented approach to interconnected issues, including health, education, gender equality and environmental sustainability.

Republic Day is a testament to the strength of our democratic principles, unity in diversity, and commitment to upholding justice and equality. The Sustainability Standards Board of the Institute is entrusted with the crucial task of advancing sustainability practices across industries, thereby contributing to the overall well-being of our society and environment.

In our pursuit of sustainable development, let us reaffirm our dedication to setting high standards that promote ethical business practices, environmental stewardship, and social responsibility. Our collective efforts play a pivotal role in shaping a future where businesses operate with a profound understanding of their impact on the world and strive for positive change.

I extend my heartfelt gratitude to all members of the Sustainability Standards Board for their unwavering dedication and support to all activities and initiatives of the Board. I am also thankful to all knowledge contributors for their valuable articles for this January 2024 issue of 'Sukhinobhavantu'.

Wishing you all a joyous Republic Day!

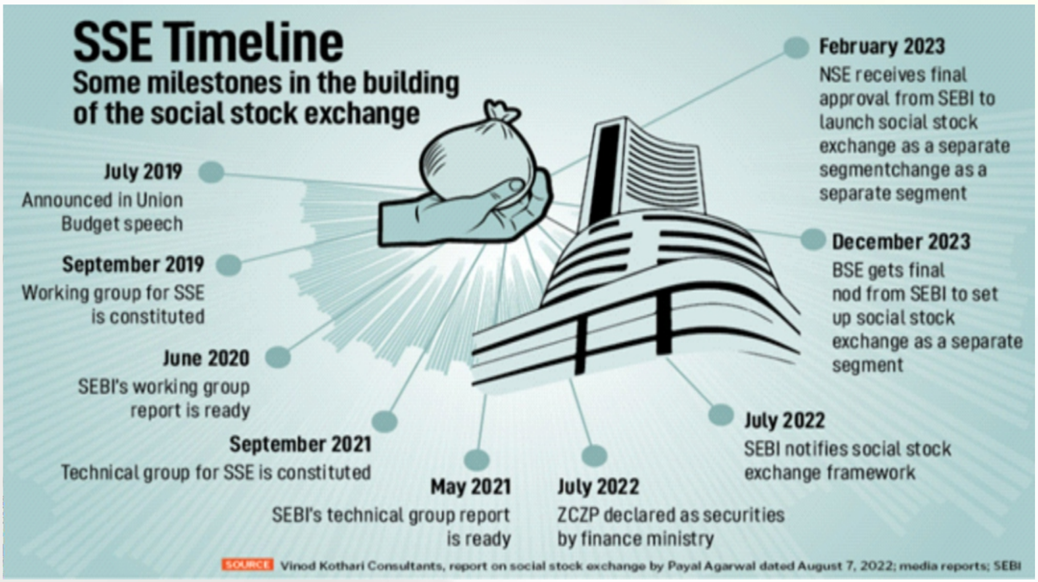
CMA (Dr.) Ashish P. Thatte
January 25, 2024

SUSTAIN THE SUSTAINABILITY

Social Stock Exchange

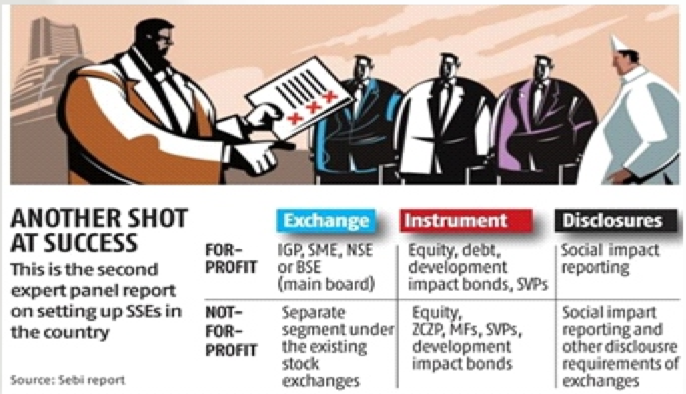
CMA (Dr.) Aditi Dasgupta
Jt. Director, ICMAI

UNDP estimates that India needs USD 1 trillion per year to meet the UN Sustainable Development Goals by 2030, and has a funding gap of USD 560 billion per year. As the Government alone may not be able to mobilise resources on this scale, it may look to enlist the support of the private sector and High Net Worth Individuals (HNI). At present, the social-development sector in India receives funding through multiple sources spanning corporate social responsibility (CSR), philanthropy, government funding and retail charity.



Social enterprises, development sector organizations, not-for-profits, NGOs and civil society organisations (CSOs) aim to bring about a positive change in society. However, their efforts to convert intent into impact are often constrained by a lack of capital, as well as by lack of sustained access to this capital. Sensing that the public sector funding, socially responsible investment, corporate philanthropy and CSR spends will fall short of filling up the funding gap, the Government of India has moved in the right direction by setting up Social Stock Exchange (SSE) under the regulatory ambit of Securities and Exchange Board of India (SEBI). The goal is to take 'capital markets closer to the masses and meet various social welfare objectives related to inclusive growth and financial inclusion.'

SSE would attempt to bring coherence across to diverse platforms with uniform frameworks of funding, utilisation,



impact-creation, measurement, disclosures, and reporting. Social stock exchanges (SSEs) provide a platform for investors to support social businesses and impact investing, revolutionising the traditional concept of stock markets. SSEs allow ethical investors to invest in businesses aligned with their values, creating a parallel social economy.

In India, NPOs and FPEs with strong social intent and impact as their primary goal will be eligible to participate in the SSE. Such an intent should be shown by its emphasis on social goals that are appropriate for under-served or less privileged sectors, populations or areas. The NPOs and FPEs aspiring to be listed on SSE will have to engage in at least one social activity out of 17 broad activities listed by the SEBI. These include promoting healthcare, education, employability, and livelihoods; eradicating hunger, poverty, malnutrition, and inequality and supporting incubators of social enterprise and gender equality empowerment of women and LGBTQIA+ communities, among others.

SEBI, India's financial regulator, will allow non-profit organisations registered as charitable trusts to list and issue zero-coupon bonds on the exchange. Zero coupon bonds are debt securities that help raise money in the market but without the obligation to pay annual interests and principal. Additionally, for-profit social businesses could raise money by selling equity or investments by mutual funds.

However, both non-profit and for-profit listed entities would be required to file annual impact assessment reports, to be audited by social auditors, showing the extent of impact achieved such as the total number of targeted people reached, the changes effected in their lives and the challenges and gaps in implementing the project.

India, with its vast population and diverse social challenges, stands to benefit greatly from SSEs. These will enable social enterprises to raise funds from the public, enhancing their visibility and fostering transparency in fund mobilisation and utilisation. By providing a separate platform for social enterprises, the SSEs will attract ethical investors looking to make a positive impact.

This will not only bolster social businesses but also contribute to the country's sustainable development goals. The three key pillars of a social trading platform could be the demand-side ecosystem (social organisations); the supply-side ecosystem (investors); and the infrastructure (the SSE and its intermediaries); however, the government would play a critical role as the market maker and influencer.

These factors would also serve as a catalyst for social finance in the nation, offering several benefits. Firstly, these will provide much-needed capital to social enterprises that often struggle to access traditional funding sources. Secondly, these will enhance transparency by requiring regular audits of social activities and impact reporting, which will build trust among investors and stakeholders. Additionally, these SSEs will increase the visibility of social enterprises, attracting both retail and institutional investors interested in supporting socially impactful ventures.

The countries that have already ventured into space provide a good learning landscape for India. While the UK's SSE, for instance, serves as a directory of socially impactful companies, providing visibility to potential investors, Canada's 'Social Venture Connexion' acts as a 'trusted connector', linking social businesses with interested impact investors and service providers. Whereas Singapore's 'Impact Investment Exchange' functions similarly to the UK's SSE, showcasing valued social businesses and impact investing funds. South Africa's 'SASIX' offers ethical investors a platform to buy shares in social projects based on sector and province classifications. These international SSEs provide valuable insights and understandings into building a robust and impactful model in India. However, India's social stock exchange is distinct from its global counterparts in the sense that it is right now based more on a donation-based model than an impact investment model. The difference is that the latter includes a component of returns, while the former is purely charity for a social cause. In India's SSE, 'returns' will be measured in terms of social impact that will be determined through annual social audits.

SSE is a breakthrough initiative for the SE to raise funds in support of the objective of social welfare. It serves as a forum for connecting those who want to make a social impact with others who are actively pursuing one. The social impact of SSE can be understood from the following lines –

- **Improved Market Access:** The SSE dramatically expands the donor base for NGOs, providing an alternative to traditional funding sources.
- **Transparent and Outcome-Based Philanthropy:** With performance tracking by chartered accountants and

social impact assessors, the SSE enhances accountability and transparency, allowing donors to witness the tangible impact of their contributions.

- **Credibility:** Listing on the SSE significantly boosts the credibility of NGOs, enhancing donor confidence through its association with established institutions like SEBI, NSE, and BSE.
- **Public Accountability of NPOs:** NPO's registration on SSE offers a decent level of assurance that the social enterprise registered there will be able to accomplish the desired goals and show public accountability.
- **Increased Capacity of NGOs/NPOs:** A functional SSE gives non-governmental organisations the opportunity to expand their social initiatives while also ensuring a comparatively reliable financing source with integrated accountability frameworks. The registered entities would receive capacity building funds' support for financial instruments, impact reporting frameworks, and regulatory compliance.
- **Reduced Information Asymmetry:** For both NPOs and FPEs, minimum reporting criteria have been proposed, which will lessen information asymmetry. Initial disclosures on general governance and financial matters are among them, as are ongoing disclosures on social effect, which must be made annually.
- **More confident investor:** The strict registration and disclosure requirements for SSE would methodically instil policies and systems that would streamline operations and result in effective management of projects. It will close the gap between vision and reality and increase investor confidence.

India is regarded as the bright spot in the global economy. At the same time, the country is experiencing some development challenges. The solutions lie in unlocking the power of the impact investing market in India by capitalising the capital markets. This will accelerate development and create the desired impact at the bottom of the pyramid. Social enterprises have the potential to make a significant impact on India's society and economy, but they struggle to find sustained funding. Social stock exchanges can help bridge the funding gap and create an investment ecosystem for such enterprises. SSE will pave the way for building values through social development and enhanced SDG preparedness. The Social Stock Exchange in India heralds a new era in organized, transparent, and efficient fundraising for social causes. It offers a credible and regulated platform for social enterprises, widening the philanthropy spectrum while ensuring accountability and effective fund utilization for impactful social change. This revolutionary initiative is set to transform the landscape of social impact financing in India, marking a pivotal moment in the nation's journey towards inclusive and sustainable development.

References:

1. www.capindia.in
2. www.eco-business.com
3. www.theindiaforum.in
4. www.cnbctv18.com
5. www.cbfinludelhi.com
6. www.forbesindia.com
7. www.sattva.co.in
8. www.economictimes.indiatimes.com
9. www.oecd-developmentmatters.org

Vasudhaiva Kutumbakam Series

We are glad to inform that Sustainability Standards Board will be organizing Vasudhaiva Kutumbakam webinars on 2nd and 4th Fridays of every month on diverse areas of Sustainability. The first webinar in this series will be held on 9th February, 2024 from 4 pm to 5:15 pm. Further details and web link will follow. Stay Tuned.

CMA (Dr.) Ashish P. Thatte
Chairman-SSB

MONTHLY NEWS

SUSTAINABILITY – A GLOBAL OUTLOOK

1. **Scientists outline a bold solution to climate change, biodiversity loss, social injustice**

   An international team of scientists led by Oregon State University researchers has used a novel 500-year dataset to frame a "restorative" pathway through which humanity can avoid the worst ecological and social outcomes of climate change.

   Read More

2. **Only 18% of the global land area that is needed for human well-being and biodiversity is currently protected**

   An international group of researchers finds that conserving about half of global land area could maintain nearly all of nature's contributions to people and still meet biodiversity targets for tens of thousands of species. But the same priority areas are at risk of conflict with human development with only 18% of that land area protected.

   Read More

3. **Accounting for plastic persistence can minimize environmental impacts**

   With plastic pollution posing a significant threat to ecosystems and human health, various strategies to lessen this type of pollution include reducing the production of plastic, decreasing the generation of plastic waste, and improving the material and product design of plastic items.

   Read More

4. **How tidal range electricity generation can protect coastal areas from flooding**

   Tidal range schemes can protect estuaries and coastal areas from the effects of sea level rise, according to researchers who say that tidal range schemes are vital to protect habitats, housing and businesses from a rising sea level estimated to be over one metre within 80 years. High tides can be limited to existing levels simply by closing sluices and turbines and existing low tide levels can be maintained by pumping. Development of estuarine barrages has been hampered by misconceptions about their operation and fears of disturbance of the ecologically sensitive intertidal areas.

   Read More

5. **Global Net Zero Commitment: 20 Industrial Clusters Across 10 Countries Join Forces**

   Three leading industrial clusters from China, France and the United States have joined the World Economic Forum's Transitioning Industrial Clusters initiative, a network of 20 industrial clusters in 10 countries and four continents that have committed to reaching net zero.

   Read More

6. **Action on Energy Demand Could Boost Growth, Save Economies $2 Trillion a Year and Cut Greenhouse Gas Emissions, Say Global CEOs**

   A set of business actions aimed at reducing the intensity of energy demand could unlock annual savings of at least $2 trillion for the global economy if measures are taken by the end of this decade. This would boost growth, save companies cash and deliver competitive advantage while also reducing emissions.

   Read More

7. **Morningstar Debuts Transatlantic SDG Index with Sustainalytics and Citi for ESG Impactful ESG Investing**

   The Morningstar Transatlantic Sustainable Development Goals Select 40 Index provides investors with exposure to U.S. and Developed European companies whose business activities contribute positively to the UN SDGs. Index constituents must pass stringent ESG screens and derive at least 25% of their revenue from one or more of the Sustainalytics Impact Themes; Human Development, Climate Action, Healthy Ecosystems, Resource Security and Basic Needs. Constituents are selected based on the highest total impact score as measured by Morningstar Sustainalytics Impact Metrics.

   Read More

SUSTAINABILITY – INDIAN CONTEXT

1. **Carbon emissions, a significant concern: Businesses increasingly acknowledging the necessity of ESG, says Bengal Environment Minister.**

   "We are entering an era where carbon emissions pose a significant concern. Businesses are increasingly acknowledging the imperative of sustainability, under the umbrella term ESG. Under the leadership of our Chief Minister Mamta Banerjee, the West Bengal government envisions an economy that actively contributes to building a sustainable environment, not only focussing on profitability" West Bengal Environment Minister Mohd Ghulam Rabbani said at a summit in Kolkata on Thursday.

   Read More

2. **NBFCs to sustain earnings even as regulatory headwinds loom**

   Analysts said NBFCs across asset classes from microfinance to housing to vehicle finance are expected to record healthy growth in the third quarter that ended December 2023. However, there will be a differentiation of the impact on margins for these companies due to the rise in the cost of funds.

   Read More

3. **93% feel tax sops relevant for ESG: PwC India survey report**

   The report titled 'Tax transparency in ESG: Insights into Indian businesses and their sustainable practices' is based on a market survey of nearly 250 tax heads, sustainability leaders, CFOs & CXOs of Indian businesses conducted between April and July 2023. It analyses how Indian businesses are weaving tax considerations into their overarching ESG framework and to assess their awareness and perception in this regard.

   Read More

4. **PSUs in coal sector brought 18,849 hectares under green cover in last 10 years**

   The coal public sector units have identified about 3,075 hectares of afforested non-forest de-coaled land suitable for Accredited Compensatory Afforestation (ACA). Government has said that the public sector units operating in the coal sector have brought 18,849 hectares under green cover in the last 10 years by planting 42.3 million saplings.

   Read More

5. **Denmark announces alliance on green fuels in India**

   The GFAI announcement comes at an opportune moment in history as India massively pushes towards achieving carbon neutrality by 2070.

   Read More

6. **Culminating Earth Forward ESG Dialogues at Downtown Powai, Mumbai: Visionaries explore sustainable strategies for the future**

   Earth Forward: ESG Dialogues at Downtown Powai, Mumbai: Final episode focused on immediate ESG interventions. A world where businesses harmonise with the well-being of our communities and the planet we call home.

   Read More

7. **Karnataka environment minister calls for public-private partnerships for sustainable development**

   Khandre added that sustainable development requires a long-term perspective, and hence, the government must be willing to invest in projects and policies that may not yield immediate returns but will create a better future for generations to come.

   Read More

8. **IIFCL plans to garner Rs 2,000 crore via maiden green bonds in 6 months**

   India Infrastructure Finance Company Ltd (IIFCL) is planning to raise Rs 2,000 crore through its maiden green bonds in the next six months to fund sustainable projects.

   It could be a mix of both domestic and foreign issuances, depending on the cost of funds, IIFCL managing director P R Jaishankar told PTI.

   Read More

Navigating Sustainability: An Evaluation of the Environmental, Social, and Governance Framework

CMA Arunabha Saha
Practicing Cost Accountant
Thane

Introduction:

ESG, an acronym for Environmental, Social, and Governance, encompasses a set of criteria for evaluating corporate performance. It delves into the strength of a company's governance structures, scrutinising its capacity to navigate environmental challenges and manage social impacts with effectiveness. ESG shapes the sustainable future of global businesses, undergoing a significant evolution in the past decade through a fundamental mindset shift. In today's business landscape, ESG is crucial for long-term resilience, transcending short-term gains and navigating risks and opportunities. Beyond finance and investor relations, ESG impacts environment and society, reflecting a shift in investor preferences towards responsible practices. ESG integration in investment strategies mirrors a broader shift in investor preferences towards responsible and sustainable practices. Transparent reporting is key to ESG success. Social auditors play a pivotal role in verifying companies' adherence to ESG principles independently. The article traverses through the multifaceted dimensions that define the contemporary business ethos.

Evolution:

The journey towards corporate responsibility in India has witnessed a significant shift of focus from Environmental, Health, and Safety (EHS) standards [evolved in the 1990s] to a broader and more inclusive approach known as Corporate Social Responsibility (CSR) [by the early 2000s]. The contemporary pinnacle of this evolution is the ESG framework [around 2015s]. This introduction provides an overview of the historical context and sets the stage for the comprehensive evaluation of each stage.

EHS Standards:

The EHS era marked a critical turning point when companies began recognising the importance of mitigating environmental impacts and ensuring the health and safety of their workforce. Compliance with regulatory standards became a primary focus, addressing immediate operational risks.

The various institutions, organisations and authors have accentuated the acronyms differently as below:

Acronym	Name
OHS	Occupational health and safety
WHS	Work health and safety
HSE	Health, safety and environment
EHS	Environment, health and safety
SHE	Safety, health and environment
HSSE	Health, safety, security and environment

"Sustainability starts with addressing the basics – safeguarding the environment and protecting the health and safety of those who contribute to our businesses." - Anonymous

CSR Integration:

As societal expectations evolved, companies expanded their responsibilities beyond environmental and safety concerns to encompass broader social considerations.

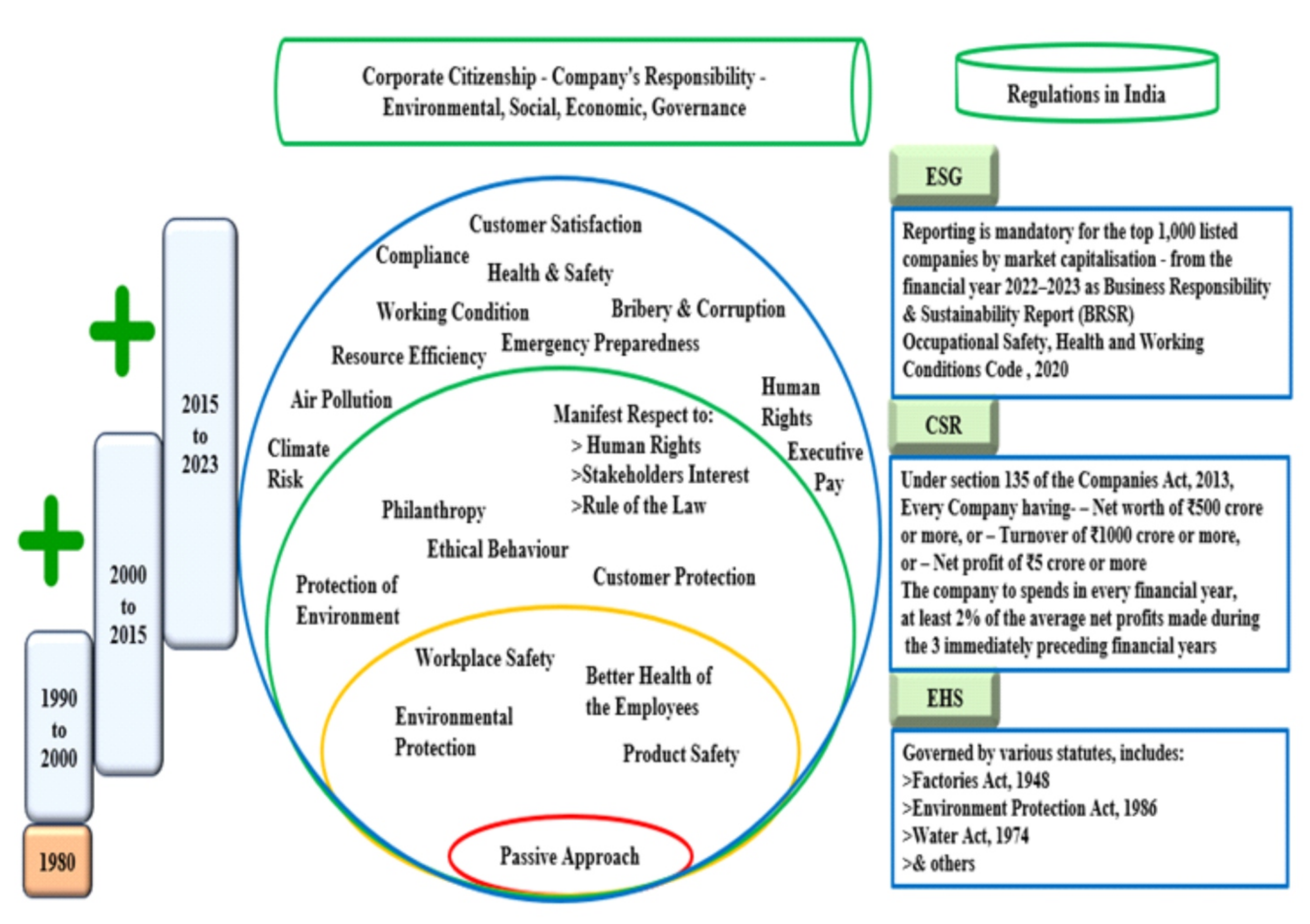
CSR emerged as a comprehensive framework encompassing philanthropy, ethical behaviour, manifest respect to human rights, stakeholder interest and rule of law.

"CSR is not just about giving back; it is about creating shared value by integrating social and environmental considerations into the very fabric of business." **- Anonymous**

ESG Framework:

The most recent development in the corporate responsibility journey is the emergence of the ESG framework. ESG integrates environmental, social, and governance factors, providing a holistic approach to evaluating a company's sustainability and ethical impact. ESG serves as a comprehensive framework designed to illuminate how an organisation navigates risks and seizes opportunities in the realm of ESG factors. It champions a holistic perspective, acknowledging that sustainability transcends beyond the confines of environmental concerns, encapsulating the broader spectrum of social and governance dynamics.

> ***"ESG is not just a reporting standard; it is a strategic compass guiding businesses towards long-term success by balancing profit with purpose."***
>
> **– Anonymous**



The transition from EHS to CSR to ESG reflects the maturation of corporate responsibility frameworks. Each stage has contributed to a more comprehensive understanding of the interdependence between businesses and the broader society. The journey continues as companies navigate the complexities of ESG, emphasising the need for a balanced approach that considers environmental sustainability, social responsibility, and governance integrity in details.

ESG Mindset:

An ESG mindset refers to a strategic and value-driven approach that individuals, organisations, and investors adopt to integrate ESG considerations into their decision-making processes. It involves a conscious effort to prioritise sustainability, ethical practices, and responsible governance in order to create positive impact beyond financial outcomes. Those with an ESG mindset recognises the interconnectedness of environmental conservation, social responsibility, and effective governance as integral components of long-term success and holistic well-being. This mindset underscores a commitment to balancing profit with purpose, contributing to a more sustainable and equitable future.

Why ESG Matters?

ESG matters for several compelling reasons, reflecting a broader understanding of corporate responsibility and sustainable business practices.

1. **Risk Mitigation:** ESG factors help businesses to identify and manage risks associated with environmental, social, and governance issues. By proactively addressing these concerns, companies can mitigate potential financial, reputational, and operational risks.
2. **Long-Term Sustainability:** Embracing ESG principles is linked to long-term business sustainability. Companies that integrate environmental and social considerations into their strategies are better equipped to adapt to evolving market conditions and societal expectations.
3. **Stakeholder Trust and Reputation:** ESG practices contribute to building trust among stakeholders, including customers, employees, investors, and communities. A positive ESG track record enhances a company's reputation, fostering stronger relationships with both internal and external stakeholders.
4. **Access to Capital:** Investors increasingly consider ESG factors when making investment decisions. Companies with strong ESG performance are more likely to attract investment, demonstrating a commitment to responsible and sustainable practices.
5. **Competitive Advantage:** ESG can be a source of competitive advantage. Consumers are becoming more conscious of the environmental and social impact of their choices, and companies that align with ESG values may gain a competitive edge in the market.
6. **Regulatory Compliance:** Adhering to ESG standards helps companies stay compliant with evolving regulations related to environmental protection, labour practices, and corporate governance. Compliance reduces legal and regulatory risks.
7. **Innovation and Efficiency:** ESG considerations drive innovation by encouraging companies to adopt sustainable practices and technologies. This often leads to increased operational efficiency and cost savings.
8. **Employee Engagement and Retention:** Employees increasingly seek purpose-driven work environments. A commitment to ESG values can enhance employee satisfaction, attract top talent, and contribute to higher retention rates.
9. **Customer Loyalty:** Consumers are more likely to support businesses that align with their values. Companies that demonstrate a commitment to environmental and social responsibility can foster customer loyalty and attract a socially conscious consumer base.
10. **Global Reputation and Market Access:** Operating with a strong ESG framework can enhance a company's global reputation, facilitating market access in regions where responsible business practices are prioritised and valued.

ESG in the Net-Zero Context:

ESG, as a comprehensive framework, provides a foundational structure for companies aiming to achieve net-zero emissions. The environmental pillar of ESG becomes particularly pivotal in this context, as it emphasises sustainable practices, carbon reduction strategies, and the adoption of renewable energy sources. A comprehensive approach to this trend in ESG requires a variety of techniques and initiatives:

1. Switching to Renewable Energy.
2. Decarbonising Supply Chains.
3. Putting in place Carbon Trading and Pricing Mechanisms.
4. Promoting the Circular Economy's Principles.
5. Investment in Carbon Removal Technologies.

Risk and Opportunities of ESG Integration in Business:

Risk:

Below are a range of risks that can arise from neglecting ESG factors:

1. Financial Vulnerability.
2. Reputation and Market Value.
3. Regulatory and Legal Repercussions.
4. Long-Term Viability.
5. Investor Confidence.

Opportunities:

ESG offers significant opportunities for businesses:

1. Enhanced Brand Value.
2. Access to Capital.
3. Operational Efficiency and Cost Reduction.
4. Innovation and Market Leadership.
5. Employee Attraction and Retention.
6. Risk Mitigation and Resilience.
7. Improved Stakeholder Relationships.
8. Innovation and Market Leadership.
9. Reduced Volatility.

ESG Ratings:

ESG ratings are assessments that evaluate a company's performance in these three key areas. These ratings provide a standardised and comparable measure of a company's commitment to sustainable and responsible business practices. ESG ratings are typically assigned by specialised rating agencies or organisations based on various criteria and metrics.

ESG and Investors:

ESG considerations have become increasingly important for investors around the world. Investors are recognising that non-financial factors, such as a company's impact on the environment, its treatment of employees, and its governance practices, can have a material impact on financial performance and long-term sustainability. Here are key points regarding the relationship between ESG and Investors:

1. **Integration into Investment Strategies:**
   - Investors are integrating ESG factors into their investment decision-making processes. This integration can take various forms, from incorporating ESG criteria into traditional financial analysis to the creation of dedicated ESG-focused investment strategies.
2. **Risk Management:**
   - Investors are using ESG analysis as a tool for risk management. Companies with poor ESG practices may face regulatory, legal, or reputational risks that can impact their financial performance. ESG analysis helps investors identify and manage these risks.
3. **Long-Term Performance:**
   - There is a growing recognition that companies with strong ESG practices may be better positioned for long-term success. Investors are considering ESG factors as indicators of a company's ability to navigate evolving market conditions, regulatory changes, and societal expectations.
4. **Stakeholder's Expectations:**
   - Investors are increasingly responsive to the expectations of various stakeholders, including customers, employees, and communities. Companies that demonstrate a commitment to ESG principles may be better able to attract and retain talent, maintain customer loyalty, and navigate social and political challenges.
5. **ESG Reporting and Transparency:**
   - Investors are pushing for greater transparency and disclosure regarding ESG performance. Companies that provide comprehensive and reliable ESG information are seen as more accountable and trustworthy, which can positively influence investor confidence.
6. **ESG Ratings and Indices:**
   - Investors often use third-party ESG ratings and indices to assess a company's ESG performance. These ratings and indices aggregate data on ESG factors to provide a comparative analysis of companies within a sector or industry.
7. **Impact Investing:**
   - Impact investing, which aims to generate positive social and environmental impact alongside financial returns, is gaining traction. Investors are allocating capital to projects and companies that align with their values and contribute to sustainable development goals (SDG).

ESG considerations have become integral to the investment landscape, and investors are increasingly recognising the importance of sustainable and responsible business practices for long-term value creation.

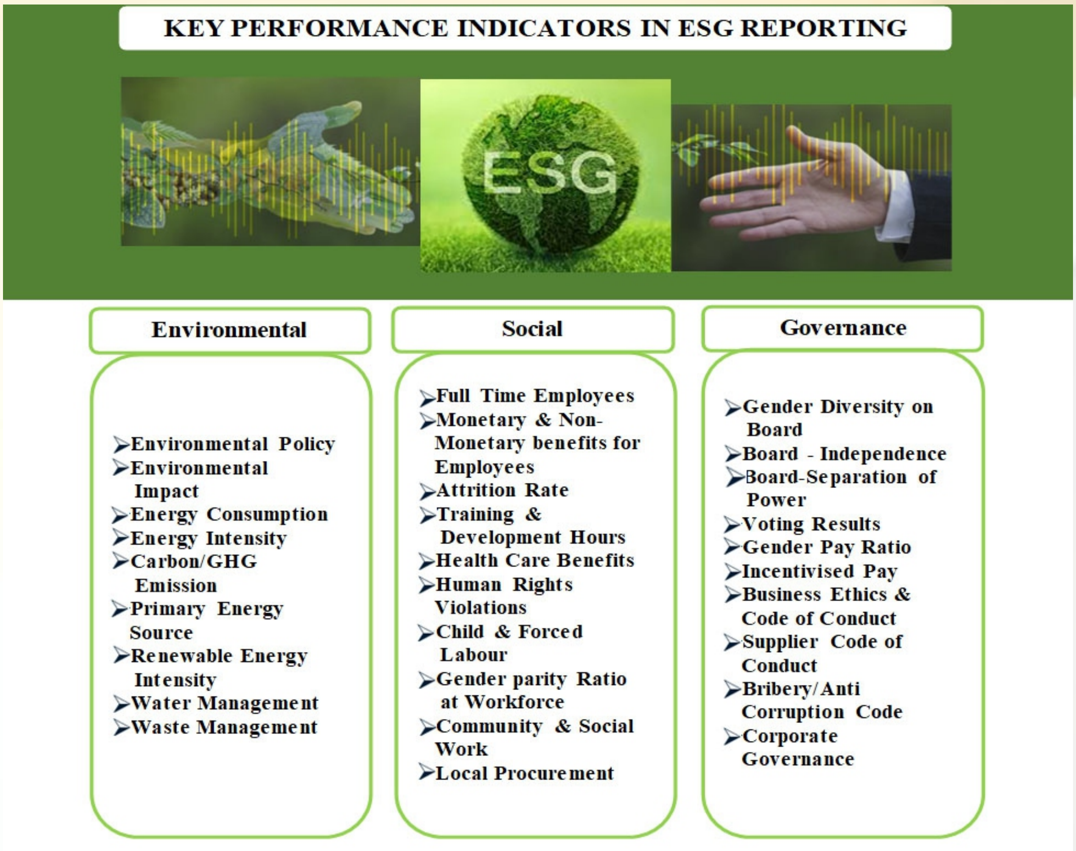
ESG Beyond Investment:

ESG considerations have evolved beyond being solely a framework for investment decisions. Today, many organisations recognise the broader impact of ESG factors on their overall business operations, reputation, and long-term sustainability. Adopting a holistic approach to ESG involves integrating these considerations into various aspects of an organisation's strategy, operations, and culture.

1. **Corporate Strategy**
   i) Long-Term Value Creation
   ii) Risk Management
2. **Operations and Supply Chain**
   i) Supply Chain Transparency
   ii) Energy and Resource Efficiency
3. **Stakeholder Engagement**
   i) Customer Relations
   ii) Employee Well-being
4. **Regulatory Compliance**
   i) Compliance Monitoring
5. **Reporting and Communication**
   i) Transparent Reporting
6. **Community Engagement**
   i) Local Impact
7. **Continuous Improvement**
   i) Monitoring and Adaptation

ESG Reporting:

Understanding the importance of sustainability factors of an organisation, SEBI has made it mandatory (from FY 2022-23)- Business Responsibility and Sustainability Reporting (BRSR) framework in the annual report of the top 1,000 listed entities (by market capitalisation). The BRSR framework is based on 9 Principles, which include conducting business with integrity, providing sustainable and safe goods and services, respecting and promoting human rights, and promoting inclusive growth and equitable development, among others. The BRSR has a basis in the National Guidelines on Responsible Business Conduct (NGRBC) principles, which is derived from the SDGs. Disclosures under BRSR are framed based on well-accepted global sustainability frameworks and standards, such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD) etc. Sooner or later, most of the organisations will be required to disclose their ESG practices transparently and comprehensively.



Role of Social Auditor in ESG:

A Social Auditor (SA) plays a crucial role in ESG auditing and rating by assessing and verifying a company's environmental impact, social performance and compliances through its professional scepticism. SA examine factors such as labour practices, human rights, community engagement, and diversity, providing an independent evaluation to investors and stakeholders. Role of a SA is crucial in evaluating a company's environmental impact and sustainability practices. This process contributes to more comprehensive ESG ratings, aiding informed investment decisions and promoting corporate accountability in social responsibility.

Conclusion:

ESG is reshaping the business landscape, compelling companies to adopt a more holistic and responsible approach to their operations. As stakeholders, including investors, customers, and employees, increasingly prioritise sustainability and ethical practices, integrating ESG considerations into corporate strategies is no longer optional – it is a necessity. Embracing ESG not only aligns businesses with global sustainability goals but also positions them for long-term success in an evolving and socially conscious marketplace.

"The best way to predict the future is to create it. Embrace ESG principles to create a sustainable and responsible future for all."

References:

1. https://inrate.com/blog/latest-esg-trends-2023/
2. https://corporatefinanceinstitute.com/resources/esg/esg-environmental-social-governance/
3. https://www.bseindia.com/downloads1/BSEs_Guidance_doc_on_ESG.pdf
4. https://www.ey.com/en_in/climate-change-sustainability-services/brsr-reporting-and-the-evolving-esg-landscape-in

Navigating the Social Stock Exchange: Non-profit Organisations

CMA Puzhankara Sivakumar
Managing Partner
SEP & Associates
Kochi

Syam Kumar R
Senior Partner
SEP & Associates
Thiruvananthapuram

Anju Panicker
Partner
SEP & Associates
Chennai

Non-profit Organisations ("NPOs") have been one of the driving forces for social welfare activities in India for decades. With the introduction of Social Stock Exchange ("SSE"), they met a novel and unique funding mechanism which is capable of widening opportunities as well as inculcating governance culture in the impactful social initiatives for these entities, thereby instilling confidence in investors. This promising move is momentous in empowering India to bridge the capital gap in achieving the Sustainable Development Goals ("SDGs") by 2030.

APPLICABLE LAWS

The provisions on SSEs were introduced through amendments in the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("ICDR") and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ("LODR") with effect from 25th July, 2022. While ICDR spelt out who had access to SSEs, the concept of Social Enterprises (SE), eligibility to be identified as an SE and their fund-raising options, LODR listed out the compliances and disclosures that an entity registered with the SSE has to follow to stay on board. The SEBI (Alternative Investment Funds) Regulations, 2012 were also amended to provide for social impact funds and other ancillary inclusions. SEBI had also issued a Circular dated 19th September, 2022 providing a detailed framework on SSEs. The SSE segment of both NSE and BSE have come out with process documentation for registration of NPOs and the listing of its securities to be followed by interested entities.

After a year of these provisions coming into force, SEBI issued a consultation paper on flexibility in the SSE framework, wherein the issues as well as the recommendations raised by the Stock Exchanges and the Social Stock Exchange Advisory Committee (SSEAC) constituted by SEBI were compiled and was issued for public comments on 29th August, 2023. Subsequently, these recommendations were suitably incorporated in ICDR and LODR Regulations vide amendments effective from 21st December, 2023. The SEBI Circular on framework on SSEs was also suitably amended on 28th December, 2023 to bring it in line with the above. As on the date of this Article, the SSE segment of both NSE and BSE are yet to align with the above modifications.

REGISTRATION OF NPOs WITH SSEs

Forms of Organisation

NPOs registered as a charitable trust registered under the Indian Trusts Act, 1882 or under the public trust statutes of the relevant states, or a charitable society registered under the Societies Registration Act, 1860 or a company incorporated under section 8 of the Companies Act, 2013 shall be eligible for making an application for registration with SSEs. The NPO must have been registered for at least 3 years prior to making an application for registration with SSEs, and the registration certificate of the entity should be valid for at least 1 year from the date of application.

Tax Aspects

The entities must have been registered with the Income Tax as an NPO, and must have a valid registration certificate for exemption under sections 12A/12AA/12AB as well as a valid registration for deduction under section 80G of the Income Tax Act, 1961. The registration certificate under sections 12A/12AA/12AB as above shall be valid for at least 1 year from the date of application to SSE. After the amendments in December 2023, NPOs having registration certificate under section 10(23C) and section 10(46) were also made eligible for registration as NPOs with SSE without the mandate of having a separate registration under section 80G of the IT Act for deduction. Also, prior to the said amendment, NPOs with pending notice or ongoing Income Tax scrutiny were ineligible for registration with SSE. However, the said amendment replaced this criterion to merely disclosing the details of pending notices or IT scrutiny at the time of application. The SSEs have been given the right to refuse the application for registration if such scrutiny/notices are grave or debilitating enough to endanger the registration of NPO under the IT Act or other relevant laws.

Financial Aspects

Audited Financial Statements for last 3 full years along with the Audited Report as filed under section 10(B) of the IT Act and the IT Returns have to be submitted to the SSEs along with the application. The NPOs must have had a minimum fund flow of at least Rs. 50 Lakhs for annual spending and at least 10 Lakhs for funding in the past financial year of making the application for registration. This shall be certified by a Chartered Accountant in Practice, along with the validity of IT registrations and other aspects as prescribed.

Social Enterprise

An entity has to be eligible to be identified as a "Social Enterprise"("SE") to be registered on SSEs. For this purpose, such entities shall establish the primacy of its 'social intent' which includes indulging in activities listed out in Regulation 292E of SEBI (ICDR) Regulations, which are in line with the major Sustainable Development Goals (SDGs)("eligible activities"), for the welfare of the "targeted population" i.e., the underserved or less privileged population segments or lower-performing regions in the development priorities of central and state governments, with at least 67 percent of the average revenues or average expenditures or average of the total customer-base and/or total beneficiaries of the immediately preceding 3 years are from providing eligible activities to target population.

Corporate foundations, political or religious organisations or activities, professional or trade associations, infrastructure and housing companies (except affordable housing) shall not be eligible to be identified as SE.

Registration and its Validity

On scrutiny of the application along with supporting documents and certificates, the SSEs shall revert with their approval or rejection or queries as they deem necessary. In case of queries raised, satisfactory responses are to be given by the applicants within 30 days. Once application is approved and the SE is registered on SSEs, such registration shall be valid for one year from the date of registration, which may then be renewed by the entities from time to time.

NPO may choose to get itself registered on SSE without raising funds through it, or it may choose to issue the permitted securities for fund-raising and get the same listed on SSEs. Whether it opts to stay as a registered entity without raising funds, or whether it chooses to raise funds through the SSE segment, it shall comply with the applicable disclosure requirements specified in SEBI (LODR) Regulations.

ZERO COUPON ZERO PRINCIPLE (ZCZP) INSTRUMENTS

An NPO registered on the SSE can make an issue of ZCZP instruments, which can then be listed on the SSE. The Ministry of Finance, Central Government, vide Notification dated 15th July, 2022, declared ZCZP instruments as "securities" for the purposes of the Securities Contracts (Regulation) Act, 1956 and defined it as an instrument issued by an NPO which shall be registered with SSE segment of a recognised Stock Exchange in accordance with SEBI Regulations.

These instruments can be issued only for a specific project or activity falling under the list of 'eligible activities', and the fund-raising document shall contain the duration within which such project or activity is to be completed. The legislation as it stands now, provides for the following in connection with the ZCZP bonds:

- The ZCZP instruments shall be issued only in dematerialised form, shall have a specific tenor, and shall be non-transferable.
- The minimum issue size shall be Rs. 50 lakhs, and the minimum application size shall be Rs. 10 thousand*.
- Institutional investors, non- institutional investors and retail investors shall be allowed to invest in ZCZP instruments.*
- There should be a minimum subscription of the issue of at least 75 percent, below which the funds raised has to be refunded.
- There shall be adequate disclosures in the fund-raising document on how the entity intends to arrange funds in case of undersubscription between 75 percent to 100 percent of the issue. In case of oversubscription, allocation shall be made on a proportionate basis.
- As the ZCZP instruments are issued for a specific project or activity, they shall cease to be listed once the object for which the fund-raising via these instruments were done is achieved, or if the tenure to achieve the object as mentioned in the fund-raising document has expired.

Issue and Listing Process

Like every public issue, the fund-raising document ("FRD") is at the heart of the issue process. It shall contain all material disclosures which enables the investors to take an informed decision. It shall contain all the basic details including type of document being filed, details of the NPO and its key management, security being issued, the project for which the fund is raised, anticipated risks and unintended consequences that the NPO sees from its work and the

methods to mitigate these. It shall also contain disclosures about its operations and financial aspects, governance and compliance, legal issues, information relating to intermediaries appointed in connection with the issue, material contracts and documents for inspection etc.

The pre-issue, issue and listing process for public issue of ZCZP instruments by an NPO are briefly summarised below:

1. Once the NPOs are registered with the SSEs, they shall make the pre-issue preparations including due diligence and finalisation of issue size and structure.
2. The issuer NPO shall make the necessary arrangements with the depositories and Registrar and Transfer Agents (RTAs) for dematerialization of the ZCZP instruments – including entering into agreements, obtaining unique ISIN, ensuring that all the allottees have a demat account, arrangement for credit of ZCZP instruments to the demat account of the respective allottees and communications thereon etc.
3. The next step would be codification of the draft FRD containing complete disclosure of the issue and entity, with supporting documents, in the prescribed manner by SSEs.
4. Draft FRD shall be filed by the NPO, which shall be made available on the website of the SSEs and the NPO for a period of 21 days for public comments.
5. SSEs may seek clarification or give observations on the draft FRD within 30 days of filing the draft FRD, and the NPO will have to address.
6. Once the observations are satisfactorily addressed or if the draft FRD is satisfactory, SSEs shall give in-principle approval to the NPO for listing of ZCZP instruments. The in-principle approval shall be valid for 12 months from the date of issue of the letter.
7. The final FRD shall be filed by the NPO prior to opening of the issue.
8. The NPO shall launch the public issue. The issue shall be kept open for minimum period of 3 working days and maximum period of 10 working days.
9. The investors shall send in their application along with details of online fund transfer or cheque/demand draft to the RTA.
10. Funds received in connection with the issue shall be credited to a separate bank account.
11. Once issue closes, the instruments shall be allotted to the applicants in line with their applications, making suitable proportionate allocation in case of oversubscription.
12. Once the issue is closed, the final FRD is to be filed with SSEs for listing approval. The listing process shall be complete on receipt of the listing approval.
13. The SSEs shall maintain the details of allotment pursuance to issuance of ZCZP instruments by the NPO.

CONCLUSION

With the introduction of changes in the connected SEBI Regulations during the year 2022 and 2023, stage is set for NPOs to access a regulated funding mechanism which is more formal and transparent. By now around 32 NPOs have registered with the SSE, out of which 3 NPOs have opted for fund-raising and more are in the pipeline. In the course of time, hopefully the Regulators will take steps to augment the CSR funds also through investment in SSE instruments so that a momentum is created for tapping funding for achieving the SDG goals by 2030.

**As on the date of this Article, the SSE segment of both NSE and BSE are yet to align with the modifications brought in by SEBI in the Regulations and Circulars.*

References:

1. www.sebi.gov.in
2. www.nseindia.com
2. www.bseindia.com

SUSTAINABILITY MUSING!

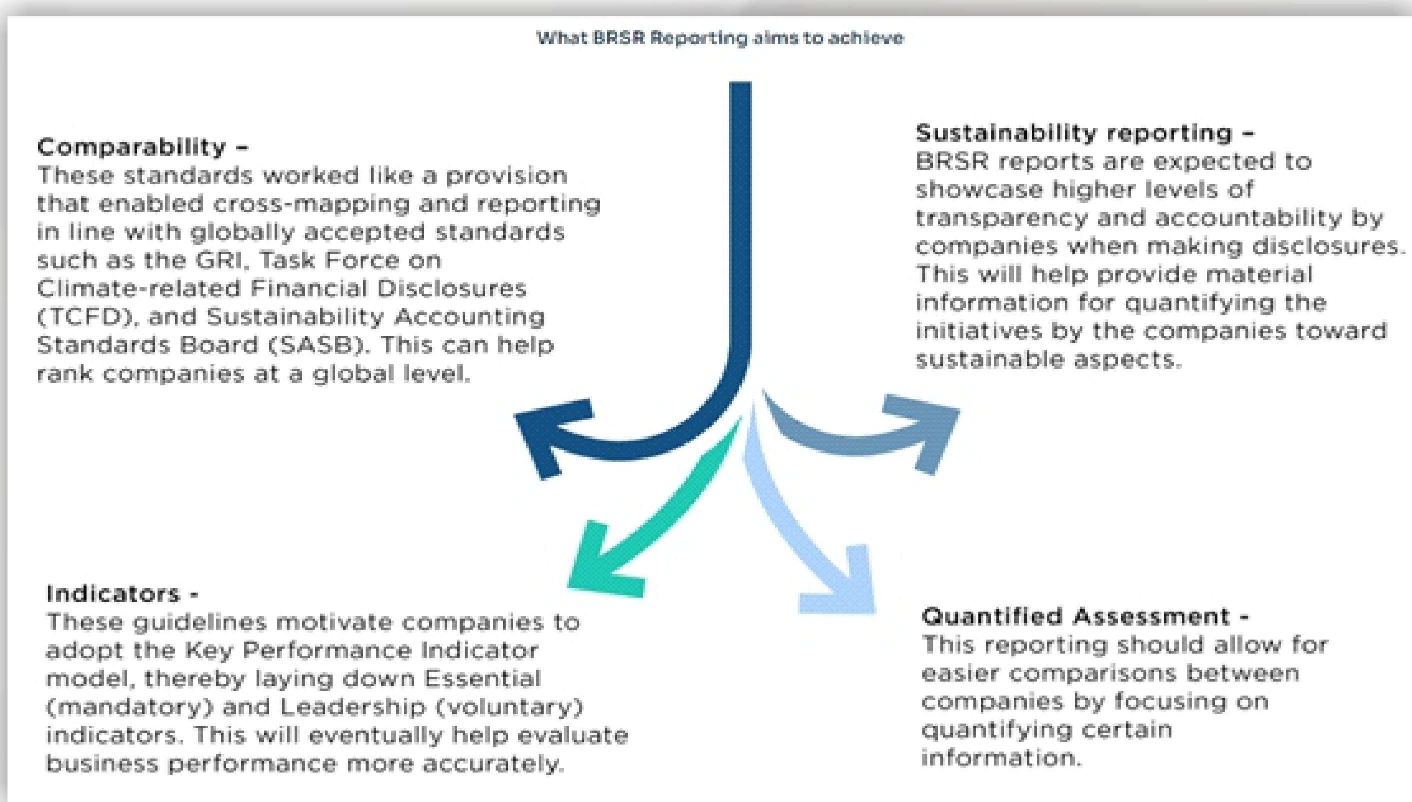
BRSR Lite

CMA(Dr.) Aditi Dasgupta
Jt. Director, ICMAI

Business Responsibility and Sustainability Reporting (BRSR) is a vital step towards achieving sustainable development. The increasing focus on environmental care, social equity, and economic welfare has made it imperative for companies to align their business practices with the goal of sustainable development. In this regard, the Securities and Exchange Board of India (SEBI) has made it mandatory for the top 1000 listed companies (by market capitalization) to comply with the BRSR framework from FY 2022-23, and recommendatory for FY 2021-22.

BRSR requires companies to make annual disclosures about their Environment, Social, and Governance (ESG) parameters, linking their financial results to their ESG performance. The framework is based on the National Guidelines for Responsible Business Conduct (NGRBC), which consists of nine principles that must be incorporated into the management policies of a company. These principles are then translated into procedures that are implemented throughout the organization, extending to its value chain partners as well.

Access to relevant and comparable information will enable investors and other stakeholders to identify and assess sustainability related risks and opportunities of companies and make better investment decisions. At the same time, businesses will be better able to demonstrate their sustainability objectives position and performance resulting in long term value creation in the form of three aspects – people, planet and profit.



BENEFITS

1. Publishing annual BRSR reports is mandatory for top 1000 m-cap companies in India and it's a matter of compliance. Those who voluntarily do it will be seen as leaders in the industry.
2. BRSR is a professional way to disclose sustainability information as it has standardized disclosures on a multitude of ESG parameters, which increases the transparency and accountability of the company.
3. The disclosures in the BRSR format are framed from an ESG perspective and are meant to encourage companies to go beyond merely complying with financial regulations and report on their environmental and social impacts as well.
4. Having a standardized set of disclosures helps a company's stakeholders to assess its business on ESG parameters while understanding the sustainability-related risks and opportunities as well.

BRSR uses a two-format approach, with Comprehensive BRSR developed for the top 1000 companies listed in India and BRSR Lite developed for unlisted companies unfamiliar with sustainability reporting. The comprehensive format includes 300 scores (225 essential indicators and 75 leadership indicators) while the BRSR Lite format is easier for smaller companies to adopt and will be implemented in phases, encouraging more companies to begin sustainability reporting. BRSR Lite – is a pared-down version of which are unlisted companies that are not familiar with sustainability reporting. This version has fewer disclosures in both Essential and Leadership categories, tailored to the extent of information that these companies would be able to provide.

The MCA Committee report allows smaller unlisted companies below a specific limit to implement a lite format voluntarily to make it easier for them to initiate reporting on environmental sustainability related matters.

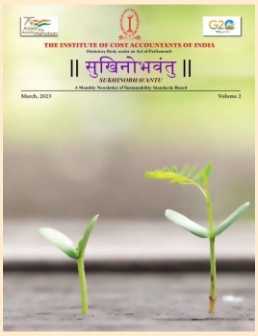
BRSR simplifies the problem of reporting framework selection using a unified, transparent reporting format, which all companies will need to adopt. The nationwide regulations and measures present to tackle the climate change issue and to grow the economy in a sustainable manner will certainly become an important focal point in the future. While India's per capita emissions are among the lowest in the world, it is one of the biggest generators of emissions and is the fastest growing economy, all of which makes sustainability reporting in India important.

References:

1. www.utopiic.com
2. www.realratingcompany.com
3. www.enterclimate.com
4. www.ey.com

Past Issues of Sukhinobhavantu

https://icmai.in/upload/Institute/Updates/SUKHINOBHAVANTU_SSB_NEWSLETTER_FEBRUARY_2023_Vol1.pdf



https://icmai.in/upload/Institute/Updates/SSB_March_23.pdf

https://icmai.in/upload/Institute/Updates/SSB_October2023.pdf

https://icmai.in/upload/Institute/Updates/Newsletter_SSB_251123.pdf

https://icmai.in/upload/Institute/Updates/SSB_Newsletter_Dec_2023.pdf

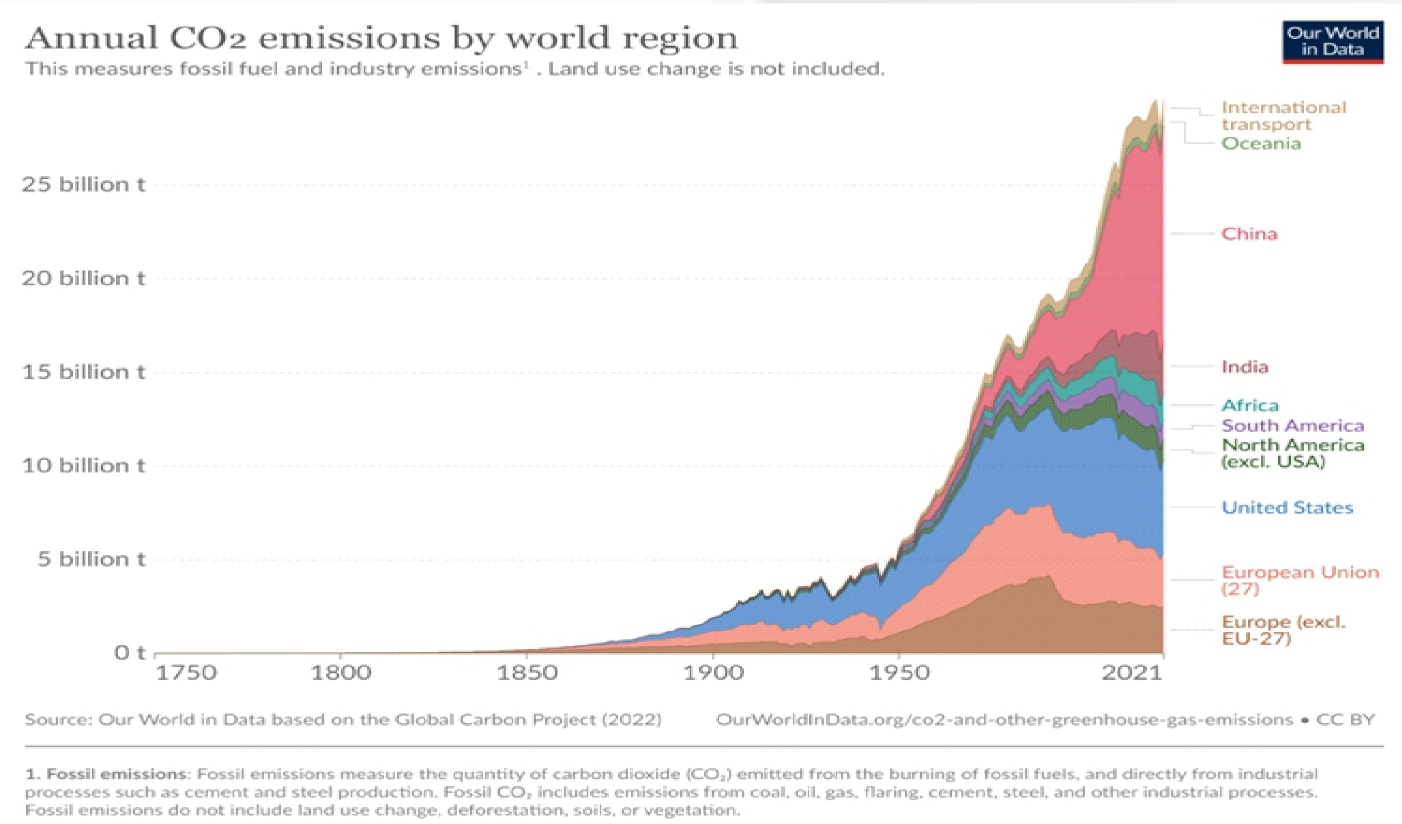
Sustainability - The Only Constant

Lekha Ashok
Partner
SVJS & Associates
Bengaluru

Jayan K.
Partner
SVJS & Associates
Kochi

Of late, the words 'sustainable' and 'sustainability' have become an integral part of our parlance. Be it an exercise routine or a diet or the environment, prefixing it with the word 'sustainable' adds a completely new dimension to them. That's how profound the word has become! Sustainable choices are invading every space of life making 'sustainability' the new mantra! A mantra to swear by…a mantra to live by..! Having said that, what does sustainability mean? Does it always mean acceptable, dependable or reliable? No! Sometimes it also means maintainable, manageable and workable. And all the excitement today is about the second set of connotations. From lifestyles to development and from resources to reporting everyone and everything seeks sustainability.

Before we delve into why sustainability has become so crucial today, it would be worthwhile to understand how sustainability has evolved over the years. It is claimed that the concept of sustainability was first spoken about after the advent of the Industrial Revolution (1760-1840). The Industrial Revolution marked a key turning point in history. It influenced in some way, almost every aspect of daily life. It was characterised by rapid industrialisation starting with mechanized textiles spinning in the 1780s with high rates of



growth in steam power and iron production occurring after 1800. Environment, Society and Governance (ESG) emerged as the three pillars of sustainability. Of this, it is the 'E' which is by far the most crucial. Environment is the biggest inheritance of the human race. We did nothing to create it, but do everything in our might to destroy it. It is true that prior to the industrial revolution, the emission of CO_2 and other greenhouse gases were far below what the world was set to witness consequently. The graph below is self-explanatory and stands testament to this.

As alarming and terrifying these numbers already are, they are set to increase even more frighteningly in the coming years. Emissions touched over 40 billion tons in 2023 recording 1.1% increase over 2022. If emissions were a yardstick of the growth and progress of the human race, then we've done very well for ourselves over the last few centuries – progressed and grown enough to destroy our biggest ever inheritance! A few more decades and we'll have nothing to show of our legacy!

Sadly this realization has dawned late. After decades of indiscriminate and brutal mutation of our environment, today we are extremely concerned about leaving carbon foot prints and earning carbon credits. Though this panic and haste to preserve and protect the environment may seem as love for the environment and the forthcoming generation - today it's all a matter of survival for the present generation too. This is definitely an afterthought and a knee jerk response to nature's retaliation manifesting through tsunamis, earthquakes, melting of glacial masses and other horrors unleashed which have wiped out masses of the world population.

Nevertheless, as the maxim goes, it's better late than never. Damage control is definitely the need of the hour, but also equally important is devising sustainable means of conserving nature. For sustainable means, let's go back to basics – let's start at the very beginning - Love for the environment and love for everything that nature has bestowed on us. When you teach a child to love his home and family, let's also inculcate in the same child love for his environment – to care for the flora and fauna that are around him, the rivers and lakes that give him water, the earth that grows his food. He will never learn the same when it's only part of his books at school. Memorizing a few lines as part of the World Environment Day celebrations at school, seldom teaches a child love for the environment. He may be able to speak loftily about nature conservation, but never be able understand and imbibe the finer nuances of it. He needs to see it to believe it. Allow him to water the plants in his garden, walk his pet dog each day, teach him to switch off all lights and fans in his home when they are not serving a purpose, use water carefully, participate in all environment protection drives organized by his apartment association or his school, encourage him to plant saplings (and not just on 'Plant a Tree day'), so on and so forth. A child, who grows up with these kinds of life lessons, will always be humane and care for nature and everything around him. He in turn is able to influence his peers thereby nurturing a generation which is naturally inclined to conserving and preserving the environment rather than being forced to do it as a measure of damage control to reduce carbon footprint.

And society is our extension, so expressive and inevitable. Having the inner space to accommodate and contain the society within is all that is needed to stay committed to it. When one believes that the society is only an extension of his own home and family, he would never do anything to its disadvantage. He would not want to throw paper bits/empty water bottles from his moving car onto the road or dump his garbage on the road or in front of his neighbor's door. This simple realization can work wonders when applied consistently to everyone and everything. Once again, it's just back to basics and having a keen civic sense. Let's first achieve this, before we can talk about complex terminologies like upliftment of the society, social empowerment etc. Those are distant dreams when one barely knows who lives in the apartment next to him. And societal improvements can be brought about only through sustainable mass effort. Each one of us needs to feel the urge to contribute towards achieving it in whatever little ways possible. It cannot be left solely to corporates to achieve this as part of their corporate social responsibility goals. In a country like ours there's far more to do and achieve than the 2% of cumulative profits of corporates that goes towards CSR contribution.

As professionals, it is we who need to have an acute sense of responsibility and commitment towards the environment and the society and so being, advise the corporates on ways and means of sustainable environment protection and social empowerment. Honestly, what happens today as part of environment protection is mostly compliance driven - driven by section 135 and Schedule VII of the Companies Act, 2013 and other Environment laws of the country. And this barely scratches the surface of caring for the environment in its true essence and spirit. To go above and beyond the requirement of the law, which goes way beyond exchanging and buying carbon credits, is sustainability in its ideal sense. This can be achieved only through governance and not compliance. There's only so much that can be achieved through compliance. It's like with the traffic lights – you stop when the light turns red, only because that's the law of the land and you know there is a penalty if you don't. How much of it do you actually imbibe? And voluntarily stop for a pedestrian or for another vehicle to pass by? It's for this reason that no one applauds you for being merely compliant. That's the bare minimum and toeing the line is hardly anything to be proud of. It's the least that is expected.

In the same vein, it's only when corporates go above and beyond compliance and progress towards effective governance, can they become sustainable. Devising sustainable objects, sustainable plans and policies and achieving sustainable progress through each of these. Yes, it is essential that they perform the routine compliance and follow the letter of the law. But actual growth and success can only come from looking beyond – by making effective governance the mantra and applying it consistently to everything, from the smallest element of detail to the biggest blueprint that they create.

This is barely the tip of the ice berg. Experts have thought deeply, spoken eloquently and written ad infinitum about sustainability and its three pillars – Environment, Society and Governance. And there is no denying that sustainability is the only constant hereon – there's no 'us' without 'them'. Now that there has been enough thinking, speaking and listening about it, it's time that we really get cracking on the toughest part – the doing. Let's start today, let's start now. By making those small little changes that will revolutionize the cause of sustainability. It could be about choosing a little expensive but sustainable product for your home, or buying a gift for your friend's birthday from an artist who works with sustainable gifting solutions rather than from a swanky store, or supporting the education of your house help's child, choosing to walk to the nearby store each time rather than bringing out your fancy car, or even spending that extra lakh on a social cause though you have already met your CSR threshold! If you look around and look hard enough, you will find a zillion ways to contribute to sustainability. Let's all hope to get there…slowly but surely.

Marching from Sustainability to ESG - The Road Ahead

G. Balasubramaniam
Company Secretary
Coimbatore

Sustainability

The word Sustainability means to retain the present value without any compromise. Sustainability is a condition under which humans and nature can exist in productive harmony that permits fulfilling the social, economic and other requirements of the present and future generations. Many believe that it is natural to lose something to gain something. This mind-set has led to loosing vital natural resources, which cannot be tolerated. Sustainability is important to make sure that we have and will continue to have the water, materials and resources to protect human health and our environment.

Concept of Sustainable Development

When we talk about sustainability by default we intend to mean only sustainable development and not just sustainability. The word sustainability means that we need to retain the present status quo and also plan for our future growth from the present stand point. Sustainable development is a broad concept that balances the need for economic growth with environmental protection and social equity. It is a process of change in which the use of resources, the direction of investments, the orientation of technological development, and institutional change are all in harmony and enhance both current and future potential to meet human needs and aspirations. Sustainable development is a broad concept and it combines economics, social justice, environmental science and management, business management, politics and law. Human being cannot tolerate the loss of good environment for the sake of growth in science and technology which they believe can take them forward in their life.

Sustainable Development indicates development that meets the needs of the present generation without compromising with the ability of the future generations to meet their needs. For example, natural energy resources, like Coal and Petroleum etc., should be prudently used avoiding wastage so that the future generation can inherit these energy resources for their survival too. The achievement of sustainable development could not be simply left to Government regulators and policy makers. We need to understand that the industry has a significant role to play in it. While corporates are the drivers for economic development, they are required to be more proactive in balancing this with social equity and environmental protection. When corporate plan for the business they should plan for sustainability also as part of their business process. They cannot ignore it or postpone for forth coming years. From the nascent stage it has to be part of the business process so that the economy and its resources are not put to stake or compromised in any manner.

The contribution of sustainable development to corporate sustainability is twofold. First, it helps set out the areas that companies should focus on: environmental, social, and economic performance. Secondly, it provides a common societal goal for corporates, Governments, and civil society to work towards ecological, social, and economic sustainability. However, sustainable development by itself does not provide the necessary arguments for why companies should care about these issues. Those arguments come from corporate social responsibility and stakeholder theory.

Corporate Sustainability

Corporate sustainability indicates new philosophy, as an alternative to the traditional growth and profit maximization model, under which sustainable development comprising of environmental protection, social justice and equity, and economic development are given more significant focus while recognizing simultaneous growth of the corporate and profitability. It is a business approach that creates long-term shareholder value by embracing opportunities and managing risks deriving from economic, environmental and social developments. Corporate sustainability describes business practices built around social and environmental considerations. Corporate sustainability encompasses strategies and practices that aim to meet the needs of the stakeholders today while seeking to protect, support and enhance the human and natural resources that will be the need of the future. Corporate sustainability leaders achieve long-term shareholder value by gearing their strategies and management to harness the market's potential for sustainability products and services while at the same time successfully reducing and avoiding sustainability costs and risks.

Global Scenario

The Australian government defines Corporate Sustainability as "encompassing strategies and practices that aim to meet the needs of the stakeholders today, while seeking to protect, support, and enhance the human and natural resources that will be needed in the future." Worldwide business communities are recognizing the need to address the environmental and social impacts of their activities. Corporate Boards are required to address issues, such as environment, social justice and economic efficiency to ensure their long-term existence. Concern towards social, environmental and economical issues, i.e., covering all the segments of the stakeholders, are now basic and fundamental issues which permit a corporate to operate in the long run sustainably.

Key Drivers

Following key drivers need to be garnered to ensure sustainability: Internal Capacity Building strength – In order to convert various risks into competitive advantages. Social impact assessment – In order to become sensitive to various social factors, like changes in culture and living habits. Repositioning capability through development and innovation: Crystallisation of all activities to ensure consistent growth. Corporate sustainability is a business approach creating shareholder value in the long run. These may be derived by converting risks arising out of economic, environmental and social activities of a corporate into business opportunities keeping in mind the principles of a sustainable development. As a good corporate citizen, the companies are required to focus on the following key aspects: Absolute Value Creation for the Society Organisations should set their goal towards the creation of absolute value for the society. Once it is ensured, a corporate never looks back and its sustainability in the long run is built up.

Externalities

“Externalities”, such as carbon dioxide emissions and water use are fast becoming materials—meaning that investors consider them central to a firm’s performance and stakeholders expect companies to share information about them. These forces are magnified by escalating public and governmental concern about climate change, industrial pollution, food safety, and natural resource depletion, among other issues. Consumers in many countries are seeking out sustainable products and services or leaning on companies to improve the sustainability of traditional ones. Further fuelling this megatrend, thousands of companies are placing strategic bets on innovation in energy efficiency, renewable power, resource productivity, and pollution control. In the end, it can be concluded that the top management of an organisation can no longer afford to ignore sustainability as a central factor in their companies’ long-term competitiveness.

Sustainable development to ESG

From the concept of sustainable development, the next evolution that we come across is the concept of ESG-Environmental, Social and Governance - ESG represents a more stakeholder centric approach of doing business rather than a customer oriented business. As ESG is increasingly becoming on the top of mind for Companies, it is high time for professionals to acquaint themselves on the compliance requirements associated therein. Companies that adhere to ESG standards agree to conduct themselves ethically in those three areas viz., Environment, Society and Governance.

SEBI vide Circular No. SEBI/HO/ CFD/CMD-2/P/CIR/ 2021/562 dated May 10, 2021 had prescribed the Business Responsibility and Sustainability Report (BRSR) which was subsequently incorporated in the Master Circular No. SEBI/HO/CFD/ PoD2/CIR/P/2023/120 dated July 11, 2023. Based on the recommendations of the ESG Advisory Committee and pursuant to public consultation, the Board decided to introduce the BRSR Core for assurance by listed entities. The Board further decided to introduce disclosures and assurance for the value chain of listed entities as per the BRSR Core.

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.

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. Listed entities shall mandatorily undertake reasonable assurance of the BRSR Core, as per the regulations of SEBI.

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. 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.

The scope of reporting and any assumptions or estimates, if any, shall be clearly disclosed. 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. The limited assurance of the above shall be applicable on a comply-or-explain basis from FY 2025-26.

ESG Vs. CSR

Whilst ESG and CSR are both concerned with a company's impact on society and the environment, the major difference between them is that CSR is a business model used by individual companies, but ESG is a criterion that investors use to assess a company and determine if they are worth investing in. CSR is the ideal and gives context about sustainability agendas and corporate responsibility culture. ESG is the action and measurable outcome. To simplify, CSR can be thought of as the qualitative side and ESG as the quantitative side. Ultimately, ESG activity is replacing CSR because it has a tangible, measurable, positive impact. An ESG score is calculated based on how an organisation is seen to be performing – that is, how its behaviour relating to ESG issues is reported. Just as with the building of corporate reputation, there is a gap between reality and perception.

Relationship between ESG and the Board of Directors

The relationship between ESG and the Board of Directors is evolving. Discussions around the "G" (i.e., Governance) are often spearheaded by the Nomination and Remuneration committee with involvement from the full board – particularly when assessing how these risks integrate with the enterprise risk management (ERM) program or impact the long-term strategy of the Company.

More Boards are incorporating the "S" (social considerations or corporate impact) into the strategy development process. Issues like health care cost, resource scarcity, human rights, and income inequality have all surged in importance.

When it comes to structuring oversight around the "E" (i.e., environmental issues), a recent global study found that best practices are still largely undetermined.

Further many respondents indicated some form of board-level oversight, either by the full board or a board committee, while others indicated that oversight lived within the organization, moreover environmental issues are "not overseen" by the company or that they "don't know."

We are seeing a rise in ESG conversations, an increase of ESG issues on Board agendas and even more on sustainability disclosures.

It is evident that ESG metrics that matter to one company may not matter to the other. The Boards and investors are increasingly turning to organizations like the Sustainability Accounting Standards Board (SASB), for ESG reporting frameworks that offer some level of consistency and financial materiality among companies within a given industry.

Equipping Boards with the right data is the biggest challenge. Effective oversight of ESG data will depend on whether today's boards have the right information at their fingertips.

Conclusion

In years past, socially responsible investments had a reputation for requiring a trade-off on the investor's part. As they limited the universe of companies that were eligible for investment, they also limited the investor's potential profit. "Bad" companies sometimes performed very well, at least in terms of their stock price.

More recently, however, some investors have come to believe that environmental, social and governance criteria have a practical purpose beyond any ethical concerns. By following ESG criteria they may be able to avoid companies whose practices could signal a risk factor as evidenced by British Petroleum's (BP) 2010 oil spill and Volkswagen's emissions scandal, both of which rocked those companies stock prices and resulted in billions of dollars in associated losses.

As ESG minded business practices gain more attraction, investment firms are increasingly tracking their performance. The trend is that companies have started to publish annual reports that extensively review their ESG approaches along with the bottom line results which is path breaking.

Reference:

1. ICSI Study Material

SUSTAINABILITY LESSONS FROM ANCIENT SCRIPTURES

Indus Valley Civilization

CMA (Dr.) Aditi Dasgupta
Jt. Director, ICMAI

The Indus Valley Civilization is one of the world's oldest urban civilizations. It is known for extensive planning, consideration for the environment in planning etc. and offers valuable lessons for sustainable development practices in modern societies.

Presence of public wells and sanitation in the ancient civilization highlights the importance of water conservation and sanitation which modern societies can emulate. Construction of elaborate underground drainage systems, shadoofs, sakias and reservoirs are smart and sophisticated modern water management techniques. The civilisation also provides evidence of elaborate canal network, e.g. in Shortughai in Afghanistan The presence of well-designed garbage disposal systems and separate areas for waste collection and disposal shows environmental consciousness. Archaeological evidence suggests that they practised tree plantation, as indicated by the presence of tree groves near their settlements. By incorporating these lessons from the Indus Valley Civilization, modern societies can strive for sustainable development, ensuring the well-being of current and future generations while preserving and protecting the environment, and heading towards SDG goals.

Indus valley civilization is also known for its water management. They give rivers a very worshiping and divine status. Mohenjo-Daro receives less rain and situates away from Indus because of it they need to store and collect water. archaeologist excavated approximate 700 wells only from there. Archaeologists have also found remains of reservoirs for water storage. The archaeological survey of India has revealed that one third of the area of the city of Dholavira in the Rann of Kutch was devoted to the collection and distribution of fresh water. The city was situated on the slope between two streams. At the point where one of the streams meet the city wall; people carved a large reservoir out of rock. This was connected to a network of a small and big reservoirs that distributed the water to the entire city all year round.

The Harappan civilization is full of intelligence and skills. The Harappan system of town planning and drainage shows that how much they were aware and concern about the divine nature, the people at that time were technologically advanced and very knowledgeable in the laying out of the construction of the city as whole though there have been no temples were found but some seals indicates that they worship nature and knows the importance of environment.

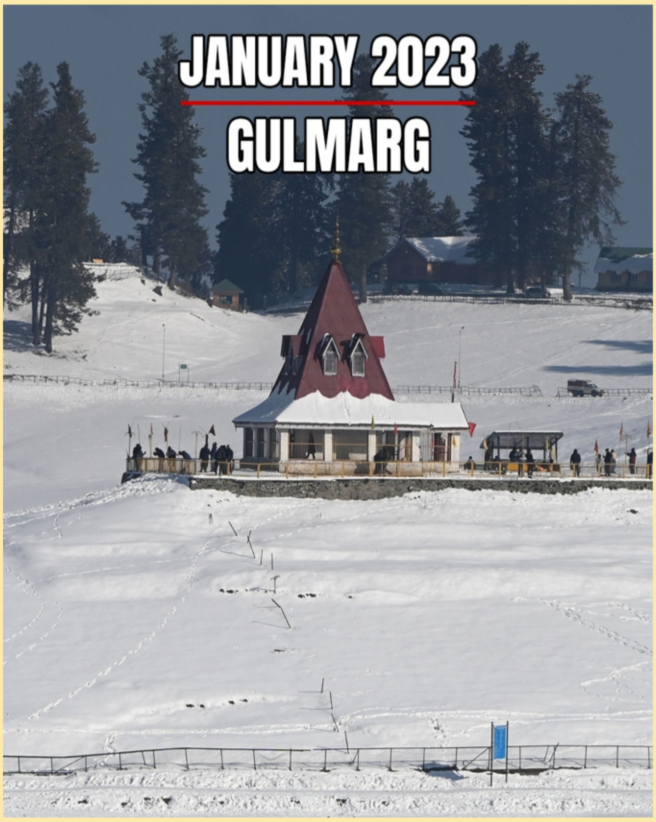
References:

1. www.pwonlyias.com
2. www.granthalayahpublications.org

DO YOU KNOW!

Located 60 km from Shrinagar, lies the town of Gulmarg known as the meadow of flowers. Gulmarg is a site to behold in winters. It turns into a snow covered paradise and a premier winter sports destination. One can walk on the snow covered slopes, ski down them or can take the world's second highest Gondola to witness the picturesque snow valleys. In 2023 1.65 million tourists visited Gulmarg. This winter it was supposed to be higher. Many are already in town expecting a fresh bout of snow but they are shocked by the sights because Gulmarg is snowless this winter. The land is barren, it's more brown than white. There are tiny specks of snow almost like a consolation. So why is there no snow in Gulmarg? The weather office says it's due to a dry spell in Kashmir this year the Kashmir Valley has received 79% less rainfall. There's been virtually no snow all season. The whole of December was dry and January too is likely to be the same. But why is that? It's because of climate change. Gulmarg's snow winter is due to the El Nino phenomenon, it's a climate pattern that leads to warming of Pacific Waters. It tends to create warmer than average weather and that's

happening in India this year. It's witnessing a shorter winter and places like Kashmir may see virtually no snow. For the town this is scary. Gulmarg depends on tourism every year it's how the town survives and it usually booms every winter. lakhs of tourists come for the snow and with no snow on the ground many are cancelling plus there are the skiing enthusiasts they want to ski down snowy slopes not barren ones also India's Winter Games will be held in the town from February 2nd that could be affected.



We are in pursuit of constant improvement and are keen to know your views.

Please write to us at **ssb.newsletters@icmai.in**

SUSTAINABILITY QUIZ RAPID FIRE ROUND

1. The COP 29 will be held at ________________.

2. BRSR Core Assurance is mandatory for top 1000 listed companies by market capitalisation for FY ______________.

3. Globally around _____% of all workers engaged in informal employment.

4. Life Cycle Assessment is also referred to as ______________ to Grave concept.

5. Validity period of Environmental Clearance for Red Category varies between one year to _________ years.

WINNERS

SL. No	NAMES
1	Arunabha Saha
2	Sitha Hari
3	Bidyut Basu

CONGRATULATIONS TO ALL THE WINNERS!

CORRECT ANSWERS OF PREVIOUS QUIZ

1. 93%	2. 500	3. 30 cm	4. 36 lakhs	5. White

The names of first 5 participants giving correct responses will be declared in the ensuing newsletter.

***The responses may be sent to* ssb.newsletters@icmai.in**

Call for Articles

Sukhinobhavantu is inviting articles on the theme ESG/ Sustainability or related themes for publishing in February' 2024 edition. The articles should be relevant and original. The article should clearly cover/depict the scope, opportunity and potential for cost accountants. It should not exceed 2200 words and references/ sources are to be given wherever required. It should reach us latest by February 10, 2024, by email to ssb.newsletters@icmai.in The right for selection of articles vests with SSB. Decision of SSB will be final and binding.

Research and Compilation:

CMA (Dr.) Aditi Dasgupta, Joint Director, ICMAI
Dr. Ranjith Krishnan, SSB Member

Curated and Edited by

Dr. Ranjith Krishnan, SSB Member

Secretary to SSB:

CMA Yogender Pal Singh

THE INSTITUTE OF COST ACCOUNTANTS OF INDIA
(Statutory Body under an Act of Parliament)
www.icmai.in

Headquarters
CMA Bhawan, 12 Sudder Street, Kolkata – 700016
Ph: +91-33-2252 1031/34/35/1602/1492

Delhi Office
CMA Bhawan, 3 Institutional Area, Lodhi Road, New Delhi – 110003
Ph: +91-11-24666100