"स्थायित्वम्"

CNK & Associates LLP
Chartered Accountants

Investing in a Sustainable Future

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Editor's Nest

"People are suffering, people are dying. Entire ecosystems are collapsing. We are in the beginning of a mass extinction and all you can talk about is money and fairytales of eternal economic growth." How dare you?" – Greta Thunberg, Swedish Climate Activist at UN's Climate Action Summit, 2019.

ESG, the latest hot topic in the corporate world, stands for Environmental, Social, and Governance wherein,

- Environmental issues include climate change, pollution, and resource scarcity.
- Social issues include human rights, labor practices, diversity and inclusion.
- Governance issues include board structure, shareholder rights, and transparency.

But what is the origin story of this new trend, and why has it become so important?

In 2015, the world in the form of the United Nations (UN), planted a seed. A seed of hope and change to battle the threat of climate change - the Paris Agreement. This seed sprouted into a new era of sustainability in which 196 countries signed the agreement and committed to a goal of limiting global warming.

Thus, the seed grew into a tree, and marked the beginning of a journey called ESG 1.0. Businesses and investors alike started to realize that sustainability was not just a passing fad, but rather a necessity for the future.

At present, however, ESG (especially the 'E' component), is undergoing a seismic shift, from a *voluntary regime to a mandatory one.* This is majorly driven by government regulations, and companies can now no longer afford to ignore ESG issues and must develop and implement comprehensive ESG strategies to stay afloat. This is no small task, but an essential one – for the sake of our planet, our people, and our future. The tree is growing larger.

Walk the Talk

Assurance for Sustainability Reporting: Auditor's new challenge –Himanshu Kishnadwala

"Sustainability", once a mere buzzword, has emerged as a driving force in business and policy. Companies are no longer just about profits; they must also demonstrate their commitment to a viable future. In response, global initiatives are springing up to establish standards and frameworks for sustainability reporting. The International Sustainability Standards Board (ISSB) is at the forefront, issuing two crucial standards: IFRS S1 and IFRS S2 which provide a comprehensive baseline for companies to disclose their sustainability performance and climate-related risks, enabling informed decision-making by investors and other stakeholders. The assurance of sustainability reporting is also gaining traction. Auditors now need to understand how climate-related risks relate to their responsibilities under professional standards, and applicable laws and regulations. The International Federation of Accountants (IFAC) and the European Commission (EC) have taken steps to enhance the credibility of sustainability information through independent assurance. The International Standard on Assurance Engagements (ISAE) 3000 (R) issued by IFAC is the standard mostly used when dealing with sustainability information assurance. The EC's Corporate Sustainability Reporting Directive (CSRD) proposes a comprehensive set of requirements that aims to enhance transparency and accountability, enabling informed decision-making by stakeholders. In addition to these initiatives, the IAASB has released the proposed International Standard on Sustainability Assurance (ISSA) 5000, which establishes a global baseline to promote trust and confidence in reported sustainability information.

These developments signal a new era of corporate responsibility, where companies that embrace sustainability will not only gain stakeholder trust, but also position themselves for long-term success in a world increasingly concerned about the environment and social well-being.

Regulatory Framework in India:

At present, Securities and Exchange Board of India (SEBI) has mandated the following for ESG reporting:

1. From FY 2022-23, the top 1000 listed companies (by market capitalization) must file a Business Responsibility and Sustainability Report (BRSR) as part of their annual reports. Section C of the BRSR is most important for ESG disclosures, and it is based on 9 principles which relate to ethics and transparency, product responsibility, human resources, responsiveness to stakeholders, respect for human rights, responsible lending, public policy advocacy, inclusive growth, and customer engagement.

2. Starting FY 2023-24, the top 150 listed companies (by market capitalization) will be required to undergo a reasonable assurance of the most critical disclosures of the BRSR, termed as "BRSR Core." This requirement will be gradually extended to the top 1000 listed entities by FY 2026-27.

Indian Reporting Blueprint

With increasing focus on measurement and disclosure of climate impact in Financial Statements, companies are starting to integrate reporting on Indian Accounting Standards (Ind AS) and also BRSR principles. To illustrate, Reliance India Limited discloses information about significant risks and uncertainties facing the company in its annual report which is based on *Ind AS 1* (Presentation of Financial Statements). In terms of BRSR compliance, the company discloses the risk of climate change and the risk of supply chain disruptions;

- Hindustan Unilever Limited discloses information about the environmental impact in terms of *Ind AS 16* relating to Property, Plant and Equipment (PPE). in its annual report. For example, the company discloses the greenhouse gas emissions associated with its PPE.

- Bajaj Finance Ltd discloses in its annual report social impact information in terms of *Ind AS 36* relating to impairment of a company's assets including intangible like number of jobs lost.

- Hindustan Unilever Limited discloses information about the environmental impact of its provisions, contingent liabilities, and contingent assets in its annual report based on *Ind AS 37*. The company discloses the greenhouse gas emissions associated with its provisions for environmental liabilities.

- Bajaj Finance Ltd discloses in its annual report information required as per *Ind AS 109/ 113/ 107* relating to financial instruments and determination of fair value. Disclosure is for policies and procedures for sustainable finance (green bonds, etc) as well as the social and environmental risks associated with it.

> ***"ESG reporting is not a checkbox exercise. It's also about stories. Companies should use ESG reporting to tell the stories of their people, their communities, and their impact on the planet."***

Contact us for a detailed presentation on the subject of ESG and BRSR Reporting at info@cnkindia.com | +91 22 6250 7600

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